

### **Vanuatu: Selected Issues and Statistical Appendix**

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VANUATU

**Selected Issues and Statistical Appendix**

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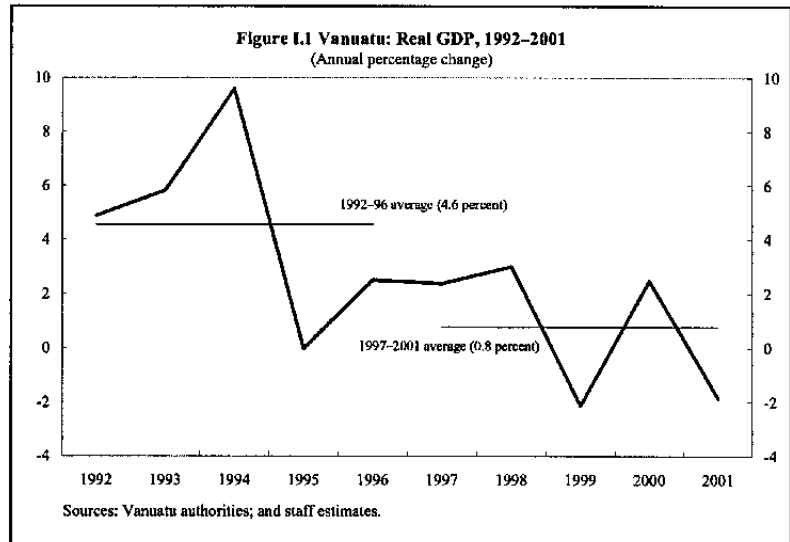
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November 13, 2002

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## I. RECENT GROWTH PERFORMANCE

1. **This note summarizes factors explaining Vanuatu's recent growth performance, which has weakened since the mid-1990s.** Based on official estimates, the annual rate of growth averaged  $\frac{3}{4}$  percent during 1997–2001, compared with  $4\frac{3}{4}$  percent during 1992–1996 (Figure I.1 and Table I.1). Population growth has remained steady, at  $2\frac{3}{4}$  percent a year during 1992–2001. On a per capita basis, GDP declined from an estimated \$1,200 in 1991 to \$1,117 in 2001. A recent poverty analysis found 7 percent of all households (in 1998) still lived on less than one U.S. dollar per day, with three-quarters of these in rural areas.<sup>1</sup>



2. **In 2001, GDP is estimated to have contracted by slightly under 2 percent** (Statistical Appendix (SA) Table 1). Agricultural output was affected by two cyclones early in the year, in particular copra and cocoa production, which in volume terms declined by 28 percent and 49 percent, respectively (SA Table 3). On the other hand, the output of kava, a tuberous crop used to produce traditional drink and medicine, nearly doubled. Industrial output, in particular manufacturing, was driven downward by a drop in commercial meat production, because of declining demand in neighboring countries. The decline was partially offset by coconut oil production (for export), which rose sharply as a new processing mill that opened in 2000 reached full capacity. The poor performance in wholesale and retail trade is reflected in low demand for non-oil imports, which rose by only 1 percent in 2001 (in U.S. dollar terms), following a drop by 16 percent in 2000 (SA Table 19).<sup>2</sup> Tourism also declined (Figure I.2), owing to the global slowdown and travel concerns, as well as improvements in the security situation in Fiji—a major competitor in this market.

3. **The low rate of growth in recent years appears to be related to both trend (namely domestic) and exogenous factors.** Growth has been constrained by structural

<sup>1</sup> See *Vanuatu Poverty Analysis*, National Statistics Office, January 2001.

<sup>2</sup> Part of this decline in 2000 can be explained by the completion of various infrastructure projects.

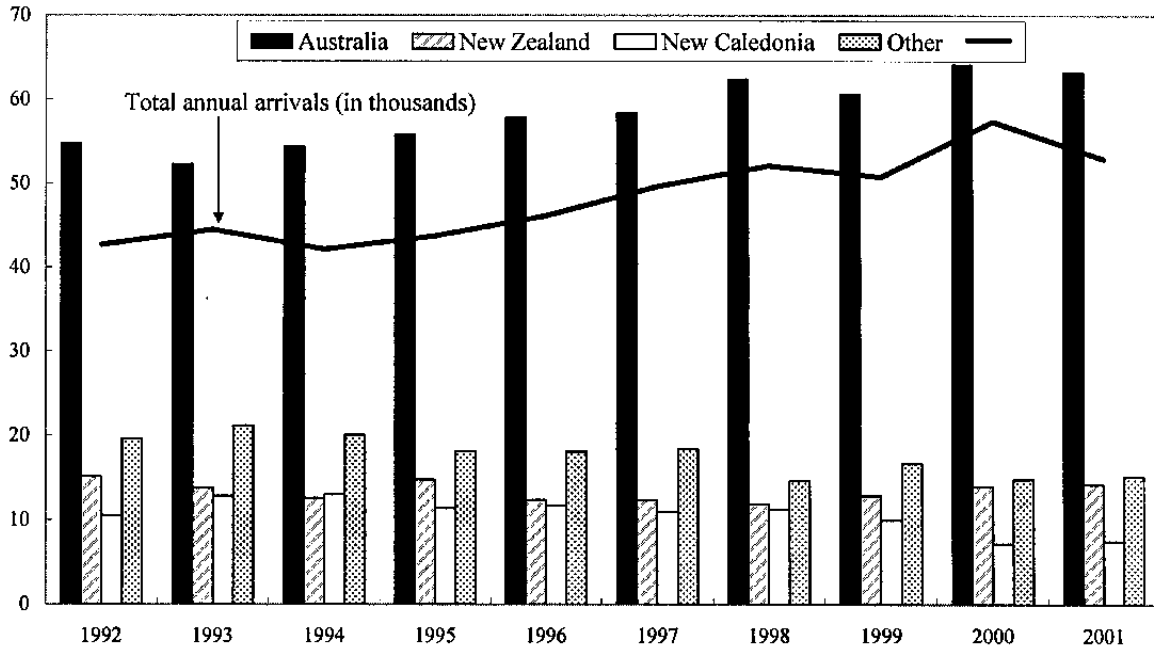
weaknesses, a lack of infrastructure development, and political instability. Vanuatu has experienced ten changes in government over the past decade (including three since late 1999), increasing policy uncertainty, straining budget discipline, and weakening investor confidence. Weather-related shocks have also played a role, most recently in 1999 and 2001, when cyclones severely affected copra production—traditionally the largest export. The Commonwealth Secretariat recently ranked Vanuatu as the most vulnerable country to natural disasters among 111 developing countries. It averaged 2.6 cyclones a year during 1970–1996. In addition, Vanuatu is prone to frequent earthquakes and volcanic eruptions. It is also subject to large terms of trade shocks, which for some exports (namely copra, cocoa, and kava) have been severe in recent years (Figure I.3) The external environment stayed generally strong, on average, across the two periods, although with a considerable weakening in 2001 (Figure I.4).

**Table I.1. Vanuatu: Real GDP, 1992–2001**

	1992–1996	1997–2001	1992–2001	2000	2001
	(Annual percentage change)				
<b>Agriculture</b>	<b>2.6</b>	<b>2.1</b>	<b>2.3</b>	<b>7.4</b>	<b>0.6</b>
<i>Of which: Copra</i>	6.9	-3.6	1.6	6.1	-6.7
<b>Industry</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>2.6</b>	<b>-1.5</b>
<i>Of which: Manufacturing</i>	1.5	-0.1	0.7	-1.4	-8.5
Construction	0.4	2.1	1.2	7.0	9.9
<b>Services</b>	<b>5.8</b>	<b>0.4</b>	<b>3.1</b>	<b>1.2</b>	<b>-2.6</b>
<i>Of which: Wholesale and retail trade</i>	8.4	-0.8	3.8	-1.6	-1.4
Hotels and restaurants	5.6	6.9	6.2	19.3	-6.8
Transport and communications	2.7	5.3	4.0	0.5	9.8
Finance and insurance	-0.2	6.1	3.0	11.5	-6.5
Government services	7.7	-4.4	1.6	-7.9	-8.0
<b>Gross Domestic Product</b>	<b>4.6</b>	<b>0.8</b>	<b>2.7</b>	<b>2.5</b>	<b>-1.9</b>
	(Contribution to growth, in percentage points of GDP)				
<b>Agriculture</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>1.3</b>	<b>0.1</b>
<i>Of which: Copra</i>	0.2	0.2	0.2	0.2	-0.3
<b>Industry</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>-0.2</b>
<i>Of which: Manufacturing</i>	0.0	0.1	0.1	-0.1	-0.5
Construction	0.1	0.1	0.1	0.2	0.0
<b>Services</b>	<b>4.1</b>	<b>0.3</b>	<b>2.2</b>	<b>0.9</b>	<b>-1.8</b>
<i>Of which: Wholesale and retail trade</i>	2.5	0.2	1.3	-0.5	-0.4
Hotels and restaurants	0.2	0.4	0.3	1.1	-0.5
Transport and communications	0.2	0.4	0.3	0.1	1.0
Finance and insurance	0.0	0.2	0.1	0.9	-0.6
Government services	1.1	-0.6	0.3	-1.2	-1.0

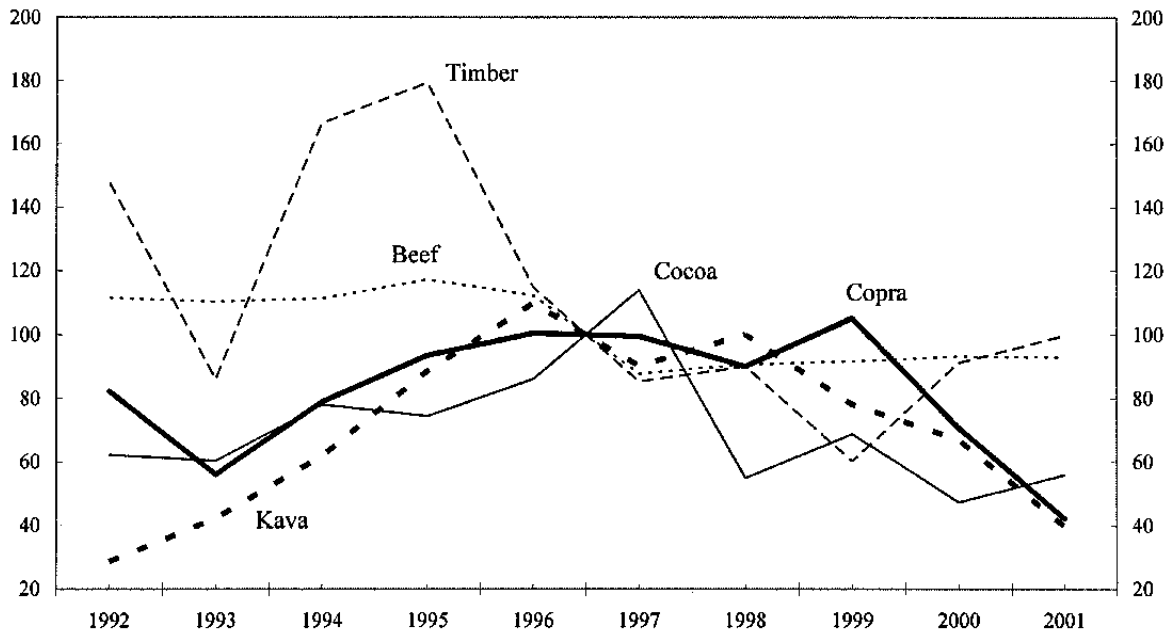
Sources: Vanuatu authorities; and Fund staff estimates.

**Figure I.2. Vanuatu: Arrivals from Abroad 1/**  
(in percent of total visitor arrivals, unless otherwise indicated)



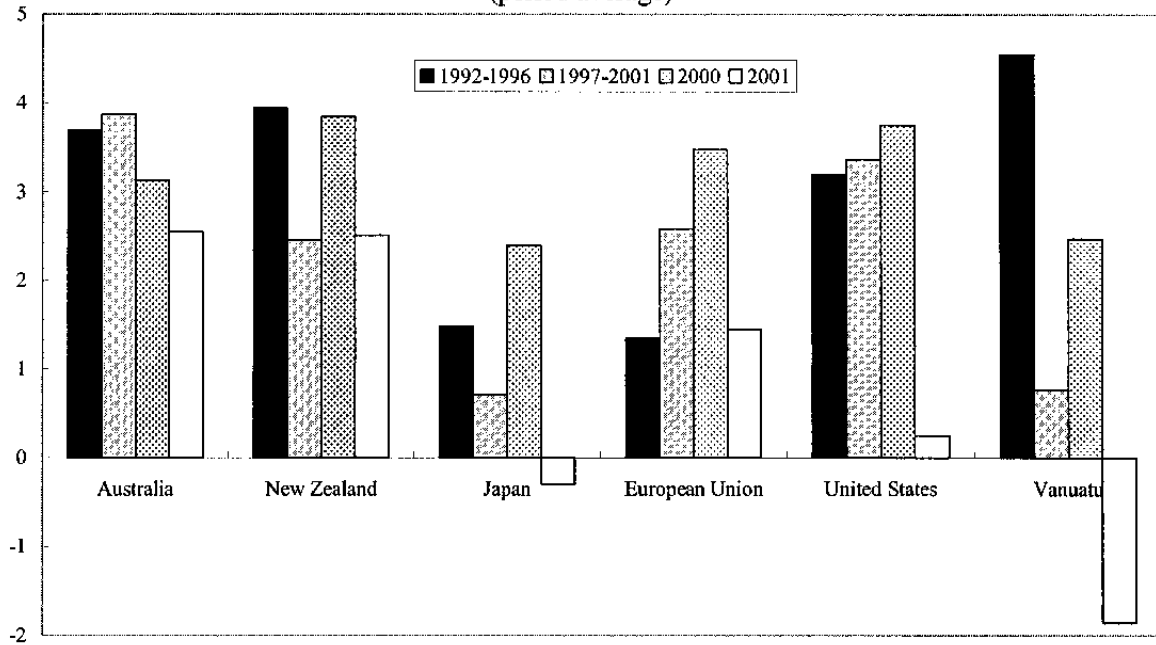
Sources: Vanuatu authorities; and Fund staff estimates.  
1/ Excludes day visitors from cruise ships.

**Figure I.3. Vanuatu: Commodity Export Prices 1/**  
(1996/97 = 100)



Sources: Vanuatu authorities; and Fund staff estimates.  
1/ Based on U.S. dollar prices per metric ton.

**Figure I.4. Real GDP Growth for Vanuatu and Major Trade Partners**  
(period average)



Sources: National authorities; and Fund staff estimates.

4. **New GDP data on an expenditure basis are expected to be published through 2001 by end year, but related indicators point to a drop in investment in recent years** (Table I.2), which may explain some of the slowdown in growth. Preliminary estimates (through 1999) show gross fixed capital formation (as a share of GDP) lower on average by 2 percentage points of GDP a year in 1997–1999 than in 1992–1996. In line with this, growth in government capital expenditure and FDI has declined as a share of GDP. Nonetheless, real GDP growth attributable to construction activity outpaced overall real GDP growth during 1997–2001—a reversal from the previous period, but this appears to have been a result of increases in the housing stock rather than productive outlays. Growth in bank credit (in real terms) also slowed considerably during 1997–2001, although both construction and housing activity took up a larger share of outstanding loans.

5. **On a sectoral basis, the slowdown in growth in the second half of the 1990s was most pronounced in services**, in particular when tourism-related activity is excluded. Wholesale and retail sales and government services experienced the sharpest declines in growth, reflecting weak primary and secondary sector activity and lower recurrent outlays by government (but primarily in non-social sectors). The overall contributions to growth of agriculture and industry remained very limited. As noted, the agricultural sector has been subject to several major supply shocks in recent years. More generally, growth in primary

products, which account for most merchandise exports, has been impeded by the unreliable transport, costly inputs, and market size, which affect external competitiveness.

**6. Focusing on agriculture and fisheries, although this sector makes a relatively small direct contribution to GDP, its growth is critical to further poverty reduction.**

Approximately 80 percent of the labor force remains tied to subsistence activity, and the recent poverty analysis found 90 percent of all poor households were involved in agricultural activity of some kind. In recent years, copra output, a mainstay of rural incomes, has been particularly hard hit. An Asian Development Bank (AsDB) study noted that

depressed earnings along with credit inaccessibility had left a number of small farmers without adequate resources to replace drying equipment, resulting in deterioration in copra quality.<sup>3</sup> Subsidies for copra farmers provided by the Vanuatu Commodity Marketing Board since mid-2001 are likely unsustainable given world price trends and limited financial resources. However, long lasting solutions to agriculture and fisheries development appear rooted in a greater diversity of products and activities, including agro-processing and commercial fishing, which remain severely underdeveloped. Growth prospects in these and other sectors, including for export, hinge on building skills and attracting investment and, relatedly, addressing competitiveness concerns (see Section II).

**Table I.2. Vanuatu: Investment Indicators**  
(In percent of GDP, unless otherwise indicated)

	1992-1996 average	1997-2001 average
Construction GDP 1/	0.4	2.1
Gross fixed capital formation 2/	22.6	20.3
Residential 3/	14.6	10.4
Commercial and other 3/	21.3	8.2
Government capital expenditure	6.8	5.6
Foreign direct investment	14.5	8.3
Claims on private sector by the banking system 1/	7.4	1.8
Bank credit for non-residential construction 4/	11.1	18.6
Bank credit for housing and land purchases 4/	19.6	21.0
Real lending rate (in percent)	11.2	9.3

Sources: Vanuatu authorities; and Fund staff estimates.

1/ Annual percentage change, in real terms.

2/ Data through 1999 only.

3/ Thousands of square meters of new floor area.

4/ As a share of total bank credit.

<sup>3</sup> See *Vanuatu: Policy Issues in the Agriculture, Fisheries, and Forestry Sectors*, AsDB, April 2002.

## II. REGIONAL COMPARISON OF COMPETITIVENESS

### A. Introduction

1. **This note compares Vanuatu's external competitiveness with several other small island economies in the South Pacific region.** Economic growth in Fiji, Samoa, and Tonga, as well as Vanuatu, is constrained by a small domestic market, limiting economies of scale and narrowing the production base.<sup>4</sup> As a result and in view of low growth in traditional sectors, a number of Pacific Island countries (PICs) have attempted to develop export sectors to bolster overall growth. However, with the exception of Fiji, merchandise exports remain generally small, although travel receipts arising largely from tourism also provide an important source of foreign exchange, especially in Fiji and Vanuatu. Given the region's isolation, maintaining well-valued exchange rates, implementing macroeconomic policies conducive to containing production costs, and ensuring an open trade and investment regime are factors that weigh heavily on the region's competitiveness.

### B. Recent Performance

2. **In Vanuatu, a weak external position and declining foreign reserves since the late 1990s have raised competitiveness concerns,** as has more generally the recent slowdown in economic growth (see Section I). Exports of goods and nonfactor services (GNFS) increased by an average of only 1½ percent a year (in U.S. dollar terms) during 1997–2001. Merchandise exports peaked in 1997, but have declined each year since, with the exception of 2000, reflecting lower export volumes and falling commodity prices (Figure II.1). Copra, traditionally Vanuatu's largest commodity export, accounted for nearly all of this reduction, although in 2000 and 2001 the drop was partially offset by coconut oil exports (Figure II.2). Travel receipts, which contribute one-third of total exports of GNFS, have also been down—in 2001, they were roughly three-quarters of the peak in 1998. This occurred despite steady growth in the number of foreign arrivals through 2000 (by an average of 3¼ percent a year in the 1990s), nearly two-thirds of which typically come from Australia.<sup>5</sup> Overall, the current account balance registered a very modest deficit (averaging 0.1 percent of

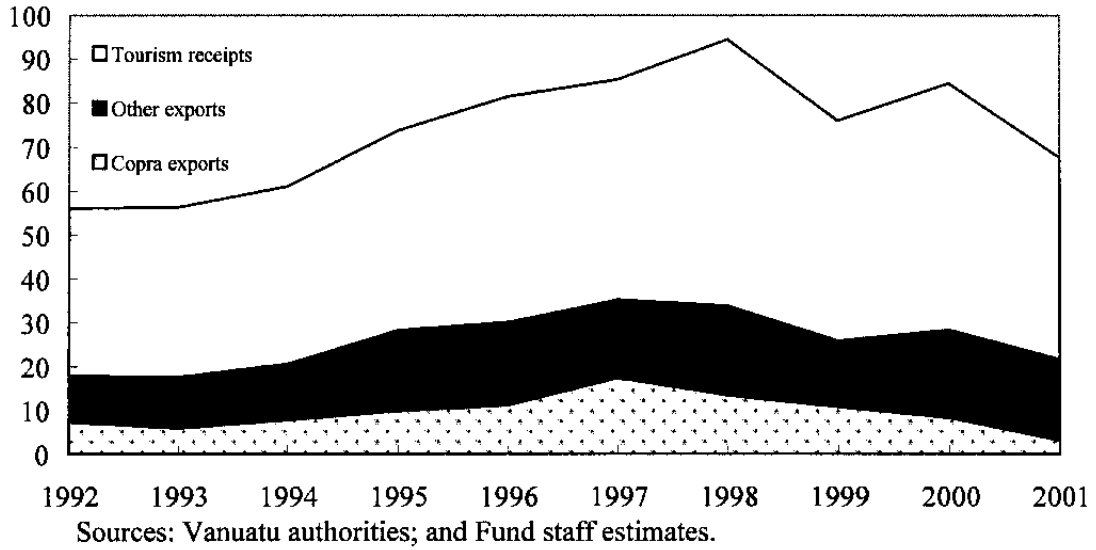
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<sup>4</sup> Fiji's economy is significantly larger and more diversified than the three other countries. However, as Vanuatu's biggest competitor in tourism, it is considered here. Papua New Guinea and the Solomon Islands are excluded, because of the size of the former and instability in the latter, which distort any comparison.

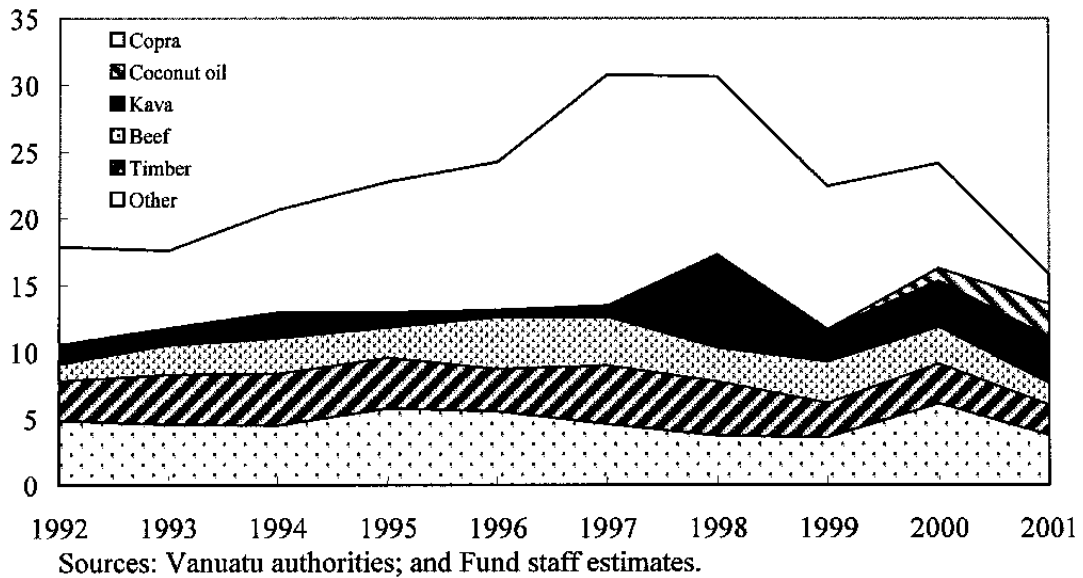
<sup>5</sup> Most recently, the number of tourist arrivals has been affected by aggressive marketing by Fiji's tourism industry, which suffered a serious setback following domestic political unrest in 2000. Visitor arrivals rose by 18 percent in Fiji in 2001, but fell by 8 percent in Vanuatu.



**Figure II.1. Vanuatu: Merchandise Exports and Tourism Receipts, 1992–2001 1/**  
(In millions of U.S. dollars)



**Figure II.2. Vanuatu: Merchandise Exports by Commodity, 1992–2001 1/**  
(In millions of U.S. dollars)



GDP during 1997–2001) (SA Table 16). However, with the capital and financial account also in deficit (due in part to a sizeable drop in FDI), gross official reserves declined noticeably, from \$43 million (4 months of prospective imports) at end–1996 to \$38 million at end-2001 (3 months of imports).

3. **A brief comparison of the recent economic performance in the four PICs generally reveals similar declines in real GDP and export growth in recent years** (Table II.1 and Figure II.3). Merchandise exports as a share of GDP have stagnated (Figure II.4). Travel receipts have also come under pressure, which in part is due to greater inter-regional competition, most notably from Indonesia and Thailand owing to lower

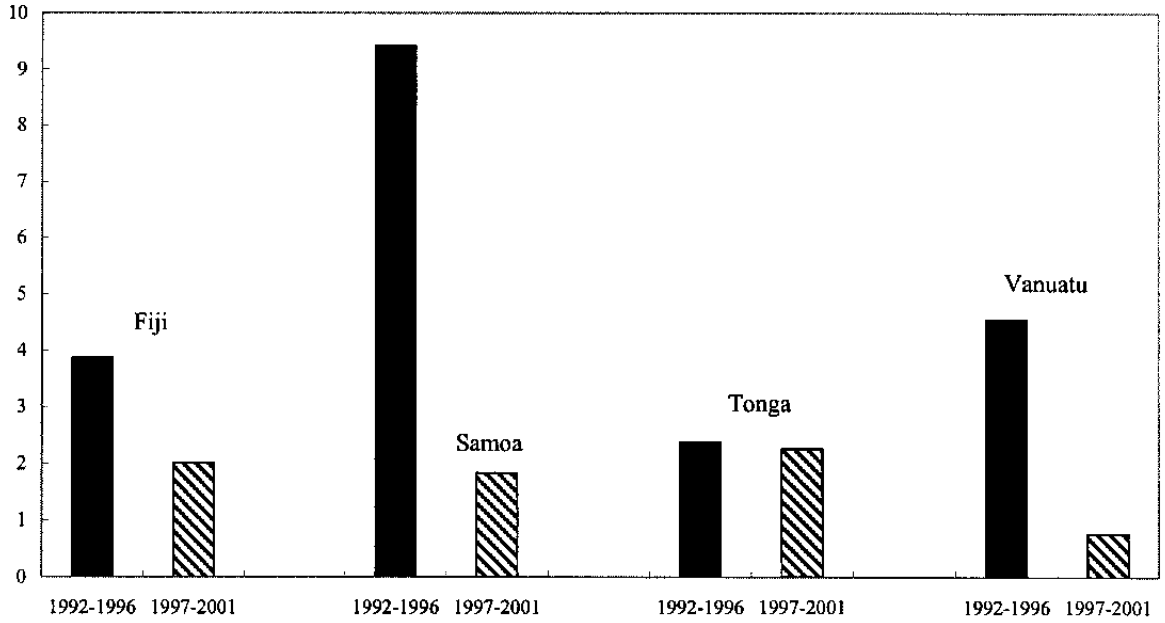
<b>Table II.1. Recent Macroeconomic Performance</b>				
	1992-96 (average)	1997-2001 (average)	2000	2001
<b>Merchandise exports 1/</b>		<b>(Annual percentage change, in U.S. dollar terms)</b>		
Fiji	14.9	-5.1	0.3	-8.6
Samoa	25.4	11.3	-24.2	10.2
Tonga 2/	8.9	1.1	84.4	-41.0
Vanuatu	11.5	-5.4	7.8	-34.6
		<b>(In percent of GDP)</b>		
Fiji	26.1	32.0	36.5	30.3
Samoa	3.4	7.9	7.0	7.7
Tonga 2/	10.6	7.5	6.9	7.7
Vanuatu	10.8	12.6	12.3	9.8
<b>Tourism receipts</b>		<b>(Annual percentage change, in U.S. dollar terms)</b>		
Fiji	12.8	-8.6	-31.5	5.1
Samoa	11.0	-10.2	20.7	-36.0
Tonga 2/	11.0	-4.2	37.3	-12.8
Vanuatu	8.1	-0.9	12.0	-18.0
		<b>(In percent of GDP)</b>		
Fiji	14.9	13.7	12.1	12.1
Samoa	4.7	4.7	5.1	3.3
Tonga 2/	6.4	6.2	6.3	5.7
Vanuatu	20.4	22.8	24.4	20.9
<b>Real GDP</b>		<b>(Annual percentage change)</b>		
Fiji	3.9	2.0	-2.8	2.6
Samoa	9.4	1.8	2.1	3.5
Tonga 2/	2.4	2.3	6.2	0.5
Vanuatu	4.6	0.8	2.5	-1.9
<b>Inflation</b>		<b>(Period average, annual percentage change)</b>		
Fiji	3.0	3.3	3.0	2.3
Samoa	5.1	2.9	1.0	4.0
Tonga	2.9	4.9	5.9	8.3
Vanuatu	2.6	2.9	2.5	3.7

Sources: National authorities; and Fund staff estimates.

1/ Excludes re-exports.

2/ Based on fiscal year ending June 30.

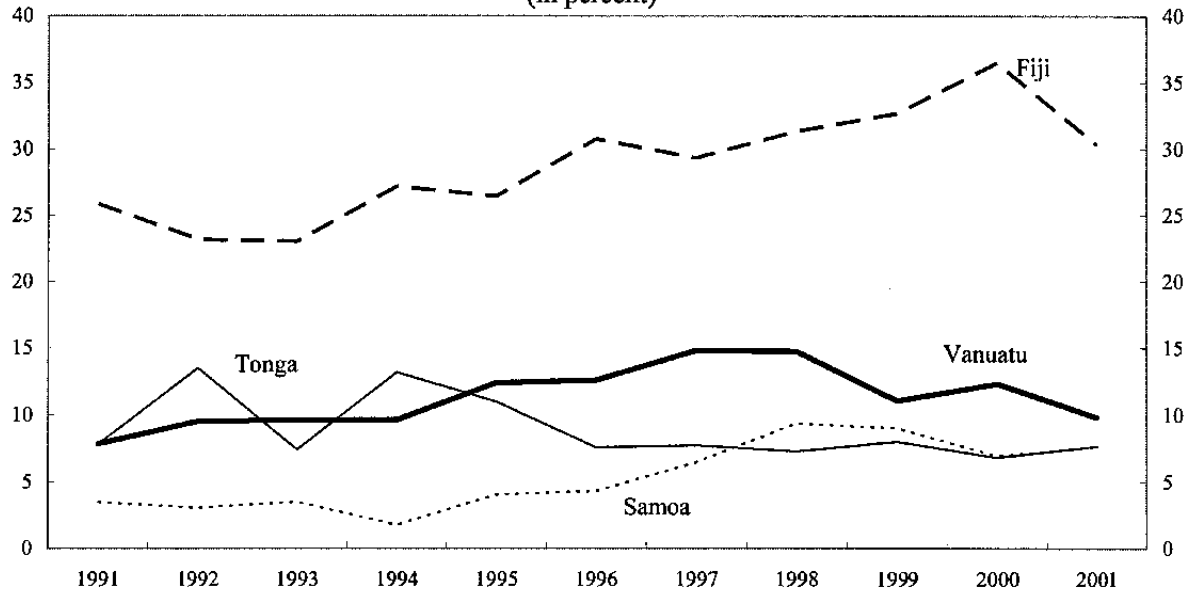
**Figure II.3. Regional Comparison of Real GDP Growth**  
(period average) 1/



Sources: National authorities; and Fund staff estimates.

1/ For Tonga, fiscal year basis ending June 30.

**Figure II.4. Exports to GDP, 1991-2001 1/ 2/**  
(in percent)



Sources: National authorities; and Fund staff estimates.

1/ Excludes re-exports.

2/ For Tonga, fiscal year basis ending June 30.

effective costs brought on by the Asian financial crisis. While it is beyond the scope of this note to discuss factors that might explain these slowdowns, the relatively poor performance suggests that the inability to improve external competitiveness may be limiting the prospects for achieving sustained growth.

4. **The export base of each PIC, with the exception of Fiji, has remained concentrated in relatively few agricultural and fishery products** (Table II.2). Growth has also tended to concentrate in only a few items—garments in Fiji, fish in Samoa, and kava and coconut oil in Vanuatu. In the case of Vanuatu, five primary products accounted for nearly three-quarters of the total value of merchandise exports in 2001. Each product is susceptible to large terms of trade shocks, which in the case of copra saw a drop in the unit price (in U.S. dollar terms) by 60 percent between 1999 and 2001. Copra exports were also affected by weather-related shocks in 1999 and 2001.

	1992–96 (average)	1997–2001 (average)	2000	2001
<b>Export concentration 1/</b>				
Fiji	0.46	0.43	0.41	0.40
Samoa	0.39	0.58	0.57	0.70
Tonga 2/	0.56	0.51	0.54	0.51
Vanuatu	0.46	0.47	0.40	0.34
<b>Share of largest commodity export (in percent of total exports)</b>				
Fiji	37.9	32.9	32.5	32.5
Samoa	26.9	55.7	55.6	68.7
Tonga 2/	51.8	42.1	40.5	40.4
Vanuatu	40.4	41.6	32.8	15.7

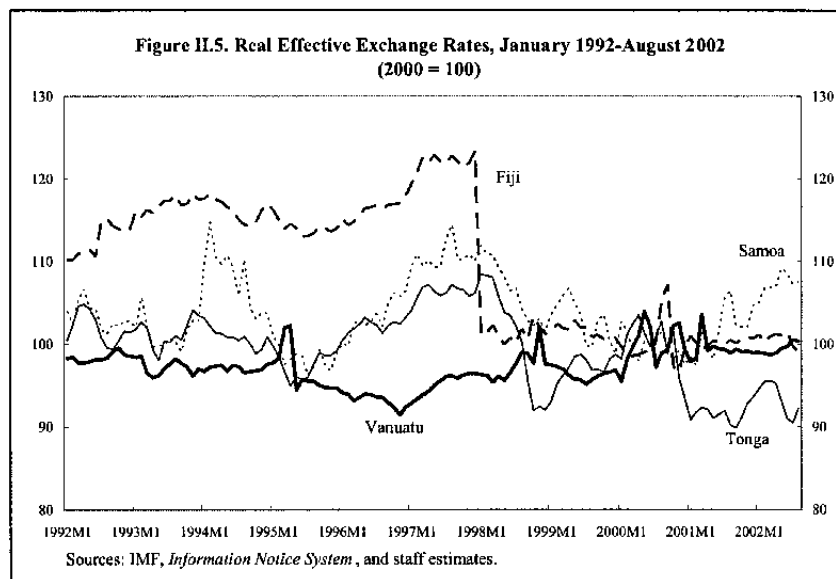
Sources: National authorities; and Fund staff estimates.

1/ Gini-Hirschman coefficient for four largest commodity exports, where 1 is the highest degree of export concentration (i.e., a single commodity export).

2/ Based on fiscal year ending June 30.

### C. Competitiveness Indicators

5. **The most readily available indicator of external competitiveness is the real effective exchange rate (REER).** A comparison of REER developments in the four PICs since the early 1990s suggests that Vanuatu has experienced some loss in competitiveness in relation to the region (Figure II.5). Focusing on the “slow growth” period (i.e., since end-1996), Vanuatu’s REER has appreciated by nearly 10 percent. During the same period, the REER of Fiji depreciated by 15 percent, largely reflecting a 20 percent devaluation of the Fiji



dollar against a basket of currencies in January 1998. Tonga's REER depreciated by 10 percent, while Samoa's REER appreciated by a modest 2 percent.<sup>6</sup> The steady real effective appreciation of the vatu since late 1996 has come at a time when Vanuatu has undertaken some structural reform and trade liberalization. However, weak overall economic performance during 1997–2001 compared with 1992–1996 and recent signs of deterioration in the current account would tend to counter the view that reform has brought a shift in the equilibrium exchange rate.

**Table II.3 Electricity and Telecommunications Indicators 1/**

	Electricity tariffs (In U.S. dollars per kilowatt hour)	Telephone mainlines (per 100 residents)	Mobile phone subscribers (per 100 residents)	Cost of local call (In U.S. dollars per minute) 2/	Cost of call to U.S. (In U.S. dollars per three minutes) 2/
Fiji	0.10	10.9	9.3	0.06	3.33
Samoa	0.15	5.6	1.7	0.11	4.03
Tonga	0.18	9.6	0.1	0.05	3.22
Vanuatu	0.22	3.5	0.2	0.20	4.69
Low income countries	...	2.9	5.4	...	...
Lower middle income	...	13.6	57.6	...	...
East Asia and Pacific	...	10.6	69.8	...	...

Sources: National telecommunications providers; South Pacific Forum Secretariat; International Telecommunication Union, *World Telecommunication Development Report 2002*; World Bank, *World Development Indicators*.

1/ For 2001, unless otherwise indicated. All regional data for 2000.  
2/ As of September 2002.

6. **Factors that possibly explain Vanuatu's low competitiveness vis-à-vis the region include a relatively high cost structure, lack of infrastructure development, and restrictive trade and investment regime.** Cross-country data on average wage levels and unit labor cost (ULC) are not readily available.<sup>7</sup> However, non-wage costs also appear to be higher in Vanuatu compared with the three other PICs, when looking at utility and transport related charges. Electricity and telecommunication costs are much higher in Vanuatu

<sup>6</sup> Currently, Fiji, Samoa, and Vanuatu maintain adjustable peg exchange rate arrangements (each against a composite basket of currencies). Tonga also has a pegged exchange rate arrangement, but within a horizontal band (currently  $\pm 5$  percent).

<sup>7</sup> A national labor market survey for Vanuatu in 2000 (the first since 1983) did find significant skill deficiencies (mainly in accounting, computers, and management) and sizable wage differentials (with three-quarters of all workers earning below the mean wage) in the formal sector, suggesting a large number of relatively unproductive but low paid workers. In the same survey, nearly three-fifths of all businesses in Vanuatu reported difficulties in recruiting employees with appropriate skills and education.

compared with the other PICs (Table II.3), partly due to greater geographical dispersion of its population, which affects transmission and distribution charges. In Vanuatu, each service is provided by a local monopoly (partially government-owned in the case of telecommunications), which is largely unregulated. Fuel costs in Vanuatu, including and excluding taxes, are also among the highest in the region. The retail price of gasoline (including VAT and customs duties) in Vanuatu in mid-2002 was approximately US\$0.75 per liter, or about 40 percent higher than the comparable price in Fiji and Tonga and 75 percent higher than in Samoa (only New Caledonia exceeded Vanuatu in the South Pacific region).<sup>8</sup> The lack of an adequate road network and port facilities also contributes to high overall transport costs, as does the lack of competition among shipping lines because of low volumes (Table II.4). The AsDB also estimates that air transport is on average 60 percent higher than in neighboring countries.<sup>9</sup>

	Roads			Air transport		
	Total road network (In kilometers)	Road coverage (kilometers per square kilometer) 2/	Paved roads (In percent)	Aircraft departures 3/ (In thousands)	Passengers carried 3/ (In thousands)	Air freight (In millions of tons)
Fiji	3,440	0.19	49.2	57.5	603	88.6
Samoa	790	0.27	42.0	10.8	169	2.2
Tonga	680	1.05	27.0	3.8	53	...
Vanuatu	1,070	0.09	23.9	1.4	102	1.8
Low income countries	434,640	...	16.5	797	52,007	..
Lower middle income	2,996,800	...	32.2	5,263	381,760	..
East Asia and Pacific	1,666,300	...	23.8	1,437	151,300	..

Source: World Bank, *World Development Indicators*, 2002.

1/ For 2000, or latest period available.  
 2/ Land mass only.  
 3/ By carriers designated by the U.S. Department of Transportation as major and national air carriers.

7. **Other cost-related factors include the degree of taxation and the level of real interest rates, on which Vanuatu's performance vis-à-vis the region is mixed.** On taxation, the ratio of tax revenue to GDP is about the same across the four PICs (Table II.5). However, unlike the other countries, Vanuatu has no corporate (or personal) income tax. As a result, the tax take is geared more towards VAT and customs duties. Tax exemptions are reported to be widely used, especially for state-owned enterprises and large (including foreign-owned) businesses. Under such circumstances, the tax burden falls disproportionately on small and medium-scale enterprises, which are considered an important engine of growth.

<sup>8</sup> See Pacific Islands Forum Secretariat *Fuel Price Monitor*, October 2002.

<sup>9</sup> See *Vanuatu: Economic Performance and Challenges Ahead*, AsDB, April 2002.

On real interest rates, both real lending rates and interest rate spreads were the highest in Vanuatu in 2001, in part reflecting high operating costs, as well as prospective credit risk and policy uncertainty in the current low growth environment (Table II.6).

	Government tax revenue		Government wage bill				Government capital expenditure 1/			
	(In percent of GDP)		(In percent of total expenditure)		(In percent of GDP)		(In percent of total expenditure)		(In percent of GDP)	
	1997–2001	2001	1997–2001	2001	1997–2001	2001	1997–2001	2001	1997–2001	2001
	(average)		(average)		(average)		(average)		(average)	
Fiji	21.0	19.3	38.7	38.4	11.6	11.5	18.2	17.6	5.5	5.3
Samoa	21.1	19.2	26.9	25.3	9.2	8.3	34.3	38.5	11.7	12.6
Tonga 2/	20.4	20.2	48.4	51.6	14.9	14.8	10.0	3.8	3.1	1.1
Vanuatu	21.6	20.1	42.8	46.2	11.6	11.6	20.8	18.1	5.7	4.6

Sources: Vanuatu authorities; and *IFS* and Fund staff estimates.

1/ Excludes net lending.  
2/ For fiscal year ending June 30.

8. **The level of productive outlays by the government is relatively low in Vanuatu compared with Samoa, but in line with Fiji.** In Vanuatu, government capital expenditure averaged 5.7 percent of GDP during 1997–2001, down from 6.8 percent of GDP during 1992–1996. At the same time, the government wage bill also declined by about 1 percentage point of GDP, but in 2001 still accounted for nearly one-half of total government spending.

9. **The degree of openness of the trade and investment regime is difficult to compare across countries, but Vanuatu has shown signs of improvement.** Changes in Fiji, Samoa, and Vanuatu have been guided, in part, by comprehensive reform programs in recent years. In Vanuatu's case, tariff rates were brought down with the introduction of a VAT in 1998, but the number of bands and dispersion of rates is still larger than in the three other PICs. The prevailing import tariff rates in Fiji are 0–27 percent, Samoa 0–20 percent, Tonga 0–25 percent, and Vanuatu 0–55 percent. For Vanuatu, this also excludes effective rates from specific import duties and ad valorem rates on selected luxury items, which are considerably higher. Vanuatu nearly completed WTO accession in late 2001, but its bid stalled owing to domestic concerns about requests for wider sector openings and lower binding rates (Fiji joined the WTO in 1996, but Samoa and Tonga, like Vanuatu, only

	Lending rate 1/ 2001	Deposit rate 1/ 2001	Interest rate spread 2001
Fiji	8.3	0.8	7.6
Samoa	9.9	5.5	4.4
Tonga	9.0	4.8	4.2
Vanuatu	13.4	2.1	11.3

Sources: Vanuatu authorities; and *IFS* and Fund staff estimates.

1/ Period average.

have observer status). Vanuatu, as well as Fiji, Samoa, Tonga and ten other countries, is also a party to the Pacific Islands Countries Trade Agreement (PICTA) finalized in 2001, which aims to set up an FTA among member states by 2014. To date, Fiji, Samoa, and Tonga, as well as the Cook Islands, have ratified the PICTA, which will begin to come into force with two additional signatories.<sup>10</sup> With respect to foreign investment, some attempts have been made in Vanuatu to streamline approvals, following the establishment Foreign Investment Board (now Foreign Investment Authority) in 1998. However, these approvals still require the agreement of ministries charged with oversight of certain sectors of the economy, which tends to lengthen the process. In addition, new investors must contend with obtaining land user rights,<sup>11</sup> completing environment assessments, and negotiating tax exemptions.

#### D. Conclusion

10. **The above discussion suggests that Vanuatu's degree of competitiveness is low when compared to other countries in the region.** While PICs tend to have relatively low populations and narrow production bases, Vanuatu appears to have a particularly high cost structure. In order to improve competitiveness, effective steps need to be taken to lower and contain costs. This includes the maintenance of macroeconomic stability through sound fiscal and monetary management and adequate exchange rate flexibility. On the fiscal front, in particular, a broadening of the tax base and containment of tax exemptions are important, so as to reduce the burden on individual taxpayers. Refocusing spending towards capital expenditure is needed to upgrade and expand basic infrastructure, especially in outer island areas, but this will require further containment of unproductive outlays, including the wage bill. Trade reforms need to concentrate on lowering effective duties and reducing discretionary exemptions, as well as putting WTO accession back on track and meeting other bilateral and multilateral trade commitments. The investment regime could also benefit from a more transparent and streamlined regulatory framework, to contain startup and operating costs.

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<sup>10</sup> Under the PICTA, the maximum tariff charged by Fiji and Tonga on imports from member states falls gradually from 20 percent to zero between entry into force of the agreement and 2010. For Samoa and Vanuatu (considered small island and/or least developed countries), the maximum tariff declines from 25 percent to zero between 2004 and 2012.

<sup>11</sup> Under the Vanuatu's land tenure system, the constitution deems all land to belong to indigenous custom owners and their descendants. For foreign investors, land may be leased for up to 75 years. A special land court has been established to preside over land tenure issues and disputes, but its operations are hindered by inadequate funding and poor staffing.



### III. DEVELOPMENTS IN THE OFFSHORE SECTOR

#### A. Introduction

1. **Vanuatu's offshore sector has been a long-standing feature of its economy.** Originally seen as a potential boon to financial sector development and economic growth, Vanuatu's offshore financial center (OFC) has stagnated in recent years. Increased global scrutiny of the nature and source of international financial flows has raised the profile of OFC-related issues, with the Vanuatu authorities currently considering significant changes to the legal and regulatory framework governing the OFC. This note describes the development and structure of Vanuatu's OFC, examines its macroeconomic impact, and highlights some key recent developments. In addition, it provides a preliminary assessment of the prospects for the sector.

#### B. Background

2. **Vanuatu's offshore sector was created in 1971, the first among the Pacific Island countries.** At the time, Vanuatu was being administered jointly by France and the United Kingdom, and the development of an offshore financial centre was seen as a potential source of growth for a geographically-isolated and largely undiversified economy. A separate regulatory regime was adopted for the offshore sector with the enactment of the Banking Act in 1970. The act allowed the establishment of "exempt institutions" largely free from oversight and taxation, but prohibited from transacting with Vanuatu residents. The size and range of services offered by the OFC continued to expand following Vanuatu's independence in 1980, with minimal changes to the legal and regulatory framework.

3. **At end-2001, the offshore sector comprised 38 banks, 15 insurance companies, and 10 trust companies.**<sup>12</sup> In addition, about 4,300 international companies are registered in Vanuatu, as well as a small number of firms providing legal and accounting services.<sup>13</sup> As a whole, Vanuatu's OFC is relatively small (for example, in 2000 the Cayman Islands' OFC consisted of 450 banks, 500 insurance companies, and nearly 50,000 international companies).

4. **Little information is available on the activities of offshore entities.** All offshore entities are required to register with and pay annual registration fees to the Vanuatu Financial Sector Commission (VFSC), a quasi-public agency currently charged with oversight of the OFC. However, there is no requirement for offshore entities to maintain a physical presence

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<sup>12</sup> Trust companies in Vanuatu are incorporated as local businesses, but primarily serve non-residents.

<sup>13</sup> Vanuatu also maintains an international shipping registry, with headquarters in New York. The activities of the registry are not considered in this note.

in Vanuatu, nor to prepare annual reports of their financial transactions or operational plans. The 1986 Companies Act includes strong secrecy provisions that limit the ability of government agencies (including the courts) to acquire or share information on the operations of offshore entities. Offshore entities are not subject to income, withholding, and capital gains taxes, and Vanuatu does not maintain tax treaties with other countries. Most offshore banks appear to operate as in-house treasuries for foreign conglomerates and wealthy individuals. Trust companies are seen to facilitate the creation of asset holding companies, while international companies on the corporate registry likely undertake more complicated financial operations.

**5. The size of the offshore financial sector has stagnated in recent years**

(Table III.1). The number of offshore banks has fallen sharply from 88 in the mid-1990s (and over 100 at the peak) to 34 in mid-2002, while the number of insurance companies has increased modestly over the same period. In contrast, the number of international companies registered with the VFSC has more than tripled since 1995, following the enactment of the International Companies Act in 1993, which created a separate registration procedure for non-financial companies.<sup>14</sup> There is no reliable information on the amount of assets controlled by offshore entities. However, unofficial estimates indicate that offshore banks had over \$2 billion in deposits at end-2001. This compares with total domestic bank deposits of \$230 million.

	1980	1985	1990	1995	2000	2001	2002 Est.
International companies 1/	422	529	739	1,468	4,002	4,298	4,478
<i>Of which: Exempt companies</i>	422	529	739	344	153	136	...
Offshore banks	41	93	103	88	51	38	34
Trust companies 2/	12	15	12	12	12	10	10
Exempt insurance companies	...	...	...	9	12	15	15

Sources: Vanuatu Financial Services Commission; and Fund staff estimates.

1/ Prior to the International Companies Act of 1993, all offshore companies were registered as exempt companies. Starting 1993, only financial sector offshore companies are required to register as exempt companies.

2/ Incorporated as domestic companies, but providing offshore services.

<sup>14</sup> Financial sector companies must still register as exempt companies under the 1986 Companies Act.

6. **The activities of offshore entities are largely unsupervised.** The Module II OFC Assessment conducted by the Fund's Monetary and Exchange Affairs Department in May 2002 determined that the VFSC failed to comply with most of the Basel Core Principles in regulating and supervising the OFC. In addition to its limited resources, the tight secrecy provisions of the Companies Act inhibit the VFSC from conducting effective oversight. However, under the Financial Transactions Reporting Act (FTRA) adopted in September 2000, offshore entities are required to report suspicious transactions to the Financial Intelligence Unit (FIU) in the State Law Office, but to date very few incidents have been reported. In contrast, the domestic banks, which also must comply with the act, have reported some suspicious transactions, but the ability of the FIU and others to investigate typically requires cooperation with foreign officials given the lack of a physical presence of potential offenders in Vanuatu.

7. **Vanuatu has a mixed record on compliance with international initiatives to improve the oversight of offshore entities.** Following the adoption of the FTRA, the Financial Action Task Force (FATF) determined that Vanuatu should not be included on its list of noncooperative countries with respect to money laundering. Separately, as part of its campaign against harmful tax practices, in 2000 the OECD included Vanuatu among a list of 35 jurisdictions which it deemed to be tax havens. In April 2002, the OECD designated Vanuatu, along with six other jurisdictions, as an uncooperative tax haven, given its failure to commit to improve the transparency of tax enforcement and to allow the effective exchange of information.

### C. Macroeconomic Impact

8. **The offshore sector makes a very limited contribution to the Vanuatu economy.** Most of the offshore banks are "shell" operations, with only three offshore banks maintaining offices in Vanuatu, and most international companies have no connection to Vanuatu beyond the appointment of a local agent. Consequently, the contribution of the OFC to domestic demand is marginal (Table III.2). In particular:

- **The OFC is a relatively small source of employment for ni-Vanuatu residents.** Official labor statistics consider employment in the financial sector as a whole, with no breakdown between onshore and offshore entities. However, the offshore sector is believed to employ at most 200 ni-Vanuatu (or 1½ percent of formal sector employment), including at domestically-incorporated entities that serve the OFC (e.g., trust companies, accounting firms, and insurance companies). In comparison, the three largest domestic banks employ almost 300 ni-Vanuatu.

- OFC activity does lead to some increased turnover for domestic banks.** Domestic banks mostly process flows through nonresident offshore accounts maintained by international companies. Otherwise, the domestic banks provide limited financial services to offshore account holders. As a result, the share of their staff devoted exclusively to the OFC is believed to be small. In addition, the domestic banks do not intermediate these accounts, owing to the nature and volatility of the deposits. For the most part, foreign currency deposits are placed with the parent bank, with the domestic bank earning a modest margin for this activity.

**Table III.2. Vanuatu: Economic Impact of Offshore Financial Center**

	1999–2001 Average	2001
Government revenue (in thousands of U.S. dollars)	883	786
(In percent of total revenue)	1.8	1.8
Employment 1/	198	196
(In percent of formal sector employment)	1.4	1.4
Ni-Vanuatu	152	152
Others	46	44
Memorandum items:		
Employment in domestic banks	315	313
Ni-Vanuatu	294	293
Others	21	20
Total formal sector employment 2/	14,066	14,007

Sources: Reserve Bank of Vanuatu and Vanuatu Financial Services Commission, and Fund staff estimates.

1/ Employment at trust companies and at accounting and legal firms. The latter provide services to both onshore and offshore companies.

2/ Based on 2000 Labour Market Survey and assuming employment growth in line with real GDP growth in 1999 and 2001.

- The OFC's contribution to government revenue is very limited.** The main source of revenue comes from company registration fees, including an incorporation fee of \$150 in the first year, and an annual registration fee of \$300 thereafter. Bank license fees currently are \$5,000 a year. All fees are paid directly to the VFSC, which uses them to fund its operations (including marketing and promotion activities), with the net amount transferred to the government budget. In 2001, the VFSC collected about \$0.8 million, with most of this transferred to the budget (equivalent to 1¼ percent of total government revenue). Revenue from the offshore sector has averaged under 2 percent of government revenue (excluding grants) since 1995. The loss of this revenue source could likely be offset through improvements in tax compliance and customs administration and stricter control over discretionary tax exemptions.

9. **In the current global environment, the presence of the OFC has created additional burdens for domestic banks.** Given the heightened concern of OFC's possible facilitation of money laundering and terrorist financing activity, transactions with banks that have direct financial dealings with offshore entities have come under close international scrutiny, especially since the events of September 2001. In Vanuatu's case, foreign banks have been seeking more assurances that domestic banks can verify the bona fides of the clients on whose behalf they are transacting. In particular, following the enactment of the U.S. Patriot Act in October 2001, banks in the United States face a greater burden in determining that their correspondent banking relationships are appropriate. As a result, the settlement of some external transactions processed through Vanuatu banks have been delayed

and, in a number of cases, denied. Given its small and concentrated domestic banking system, the Vanuatu economy is particularly vulnerable to a disruption in the external operations of any of its three large commercial banks.

10. **On balance, the reputational impact from the OFC sector appears to be negative.** Some industry representatives maintain that the presence of an OFC promotes foreign investment and tourism. These potential positive benefits should be weighed against the negative impact of the OFC. Most importantly, without assurances that transactions are isolated from the OFC, there is a risk that foreign counterparties could decide to suspend their relationships with Vanuatu banks. Such a move would disrupt the normal banking and trade activities of Vanuatu companies. Separately, the OECD may decide to impose sanctions in line with its assessment that Vanuatu is an uncooperative tax haven. Such sanctions could include a withholding tax on the transfer of funds to Vanuatu, leading to a possible further disruption of external transactions.

#### **D. Recent Developments**

11. **Recent steps have been taken to strengthen oversight of the OFC.** Initial efforts have focused on tightening the framework for domestic banks' transactions with offshore entities. The Reserve Bank of Vanuatu (RBV), which is responsible for the supervision of domestic banks, issued a "know your customer" guideline in mid-2002. By requiring domestic banks to verify the true nature of their transactions, the guidelines are expected to lead to requests for greater disclosure of offshore client activities. In connection with this, the RBV has also begun on-site inspections of the anti-money laundering procedures in place at domestic banks.

12. **More fundamental changes to the regulatory and supervisory framework of the OFC are under consideration.** While the supervisory regime for the domestic financial system was updated in 1999 with the adoption of Financial Institutions Act and is now largely compliant with Basel Core Principles, the offshore banking sector continues to be governed by the Banking Act of 1970. A new draft international banking act governing offshore banks is under final consideration which, if adopted, would improve the oversight of offshore banks. Among its provisions, the new act would unify the supervision of onshore and offshore banks under the RBV, applying similar requirements (with respect to capital adequacy, information disclosure, fit-and-proper evaluations of bank owners, etc.). The act would also require all offshore banks to maintain a physical presence in Vanuatu. In addition, by bringing the guidelines for information sharing and reporting in line with those prevailing for the domestic banking system, the act would relax some of the strict secrecy provisions of the existing setup.

13. **The adoption of these measures will likely result in a further contraction of the OFC.** Most offshore banks would be expected to cease operations in Vanuatu given increased direct supervision and the requirement to maintain a physical presence. The number of international companies may also shrink, as their transactions with onshore and offshore

banks come under tighter scrutiny. In the short run, these entities would likely migrate to jurisdictions that maintain weaker supervision of their OFC. However, many countries with offshore sectors are in the process of strengthening their oversight of offshore entities (including through participation in multilateral initiatives). The role of the VFSC would also need to be reconsidered. Although responsibility for bank supervision would shift to the RBV under the new international banking act, oversight of nonbank financial companies (including insurance and trust companies) would remain with the VFSC. Also, the VFSC could increase its role in overseeing the activities of international companies, as well as maintaining the official register of domestic and offshore companies.

### **E. Conclusion**

14. **Vanuatu's offshore sector is at a critical juncture.** With the increased global focus on combating money laundering and improving the oversight of financial flows more generally, it will be difficult for the OFC to operate in its current form. Domestic banks are likely to continue to face internal and external pressure to limit their transactions with offshore banks, in light of the demands for greater transparency in their financial dealings. In view of this and the limited contribution of the OFC to economic activity, the overall impact of moves to tighten the supervisory regime is expected to be positive. On the one hand, the short-term impact is likely to result in some loss in financial sector employment and government revenue, but any further spillover would be expected to be limited. On the other hand, the reputational harm of the OFC would be expected to ease. Combined with the benefits of strengthened bank supervision, such reforms to the OFC sector should improve the overall soundness of Vanuatu's financial system.

Table 1. Vanuatu: Gross Domestic Product by Type of Economic Activity  
in Constant 1993 Prices, 1996-2001

(In millions of vatu, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001 Est.
Agriculture, fishing, and forestry	2,755	2,846	3,101	2,799	3,007	3,026
(annual percentage change)	4.4	3.3	9.0	-9.7	7.4	0.6
Copra	763	807	854	605	642	599
Cattle	252	193	183	260	256	254
Cocoa	76	144	122	75	133	66
Kava	65	78	296	159	235	365
Other commercial agriculture	101	92	86	69	79	86
Subsistence agriculture	1,373	1,401	1,431	1,489	1,523	1,557
Forestry and logging	125	131	129	142	139	99
Industry	1,585	1,516	1,605	1,667	1,710	1,684
(annual percentage change)	-5.7	-4.4	5.9	3.9	2.6	-1.5
Manufacturing	824	796	882	900	887	812
Electricity	345	344	368	381	410	418
Construction	416	376	355	386	413	454
Services	10,864	11,203	11,326	11,224	11,361	11,070
(annual percentage change)	3.3	3.1	1.1	-0.9	1.2	-2.6
Wholesale and retail trade	4,964	4,841	4,885	4,916	4,836	4,769
Hotels and restaurants	747	857	901	919	1,096	1,022
Transport and communications	1,445	1,562	1,655	1,691	1,700	1,867
Finance and insurance	987	1,206	1,334	1,237	1,379	1,290
Real estate and other services	745	784	788	743	802	728
Government services	2,436	2,423	2,362	2,291	2,109	1,941
Domestic services	134	141	147	154	160	173
Less: imputed banking charges	594	611	746	727	721	720
Gross domestic product	15,204	15,565	16,032	15,690	16,078	15,780
(annual percentage change)	2.5	2.4	3.0	-2.1	2.5	-1.9

Sources: National Statistics Office and Reserve Bank of Vanuatu; and Fund staff estimates.

Table 2. Vanuatu: Gross Domestic Product by Type of Economic Activity  
in Current Prices, 1996–2001

(In millions of vatu, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001 Est.
Agriculture, fishing, and forestry	4,428	4,491	5,120	4,854	4,812	4,800
(annual percentage change)	4.4	3.3	9.0	-9.7	7.4	0.6
Copra	1,040	1,101	1,056	991	716	663
Cattle	419	304	299	448	437	507
Cocoa	79	155	141	86	138	68
Kava	121	152	717	365	434	439
Other commercial agriculture	229	160	141	102	132	147
Subsistence agriculture	2,228	2,379	2,489	2,610	2,639	2,735
Forestry and logging	312	240	277	252	316	241
Industry	2,764	2,533	2,808	2,951	3,017	3,009
(annual percentage change)	-5.7	-4.4	5.9	3.9	2.6	-1.5
Manufacturing	1,349	1,296	1,459	1,504	1,479	1,374
Electricity	562	467	609	631	678	691
Construction	853	770	740	816	860	944
Services	19,519	20,740	21,958	22,409	23,987	24,245
(annual percentage change)	3.3	3.1	1.1	-0.9	1.2	-2.6
Wholesale and retail trade	9,142	9,260	9,898	10,094	10,222	10,323
Hotels and restaurants	1,661	1,939	2,090	2,169	2,660	2,560
Transport and communications	3,020	3,273	3,543	3,670	4,003	4,446
Finance and insurance	1,958	2,458	2,809	2,631	2,999	2,908
Real estate and other services	1,148	1,276	1,307	1,226	1,348	1,277
Government services	3,382	3,377	3,462	3,711	3,877	3,871
Domestic services	386	402	420	438	458	495
Less: imputed banking charges	1,178	1,245	1,571	1,530	1,580	1,635
Gross domestic product	26,711	27,764	29,886	30,214	31,816	32,054
(annual percentage change)	4.5	3.9	7.6	1.1	5.3	0.7

Sources: National Statistics Office and Reserve Bank of Vanuatu; and Fund staff estimates.



Table 3. Vanuatu: Agricultural Production, 1996–2001

(In metric tons, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001 Est.
Copra (in thousand of tons)	38.3	40.3	43.0	30.5	27.3	19.7
By type of processing						
Smoked	4.4	4.2	1.8	1.5	0.2	0.0
Hot air/sun dry	34.0	36.2	41.2	29.0	27.1	19.7
Cocoa	939	1,757	1,501	891	1,558	796
Kava (dried weight basis) 1/	64	124	749	334	486	935
Beef 2/	3,698	3,826	3,565	3,875	3,754	3,028
Pork 3/	36.1	28.9	67.0	33.2	48.3	37.6
Memorandum items:						
Copra prices (in thousands of vatu per ton)						
Average domestic price paid to producers 4/	30.4	29.8	28.7	35.2	28.2	24.7
Average f.o.b. price received	39.7	42.6	40.1	49.2	43.0	22.4
Cocoa prices (in thousands of vatu per ton)						
Average domestic price paid to producers	94.5	99.3	105.6	85.8	81.8	95.5
Average f.o.b. price received	117.9	135.7	183.8	125.6	94.4	133.6
Coconut oil exports (in thousands of tons)	0.0	0.0	0.0	0.0	1.8	8.5

Sources: Reserve Bank of Vanuatu, Vanuatu Commodities Marketing Board, and Ministry of Agriculture.

1/ Kava exported for pharmaceutical purposes is dried; kava sold for the local beverage market is fresh (green).

2/ Total volume slaughtered in Port Vila and Lunganville abattoirs.

3/ Port Vila abattoir only.

4/ Includes transport allowance.

Table 4. Vanuatu: Energy Production and Consumption, 1996–2001

	1996	1997	1998	1999	2000	2001 Est.
<b>1. Electricity production and consumption 1/</b>						
	(In kilowatts)					
Installed capacity at end of year	14,320	14,320	14,320	18,340	22,160	...
Maximum demand	8,320	8,540	8,550	8,680	9,390	9,950
	(In thousands of megawatt hours)					
Output	44,129	39,906	41,714	43,864	47,270	48,658
(annual percentage change)	9.8	-9.6	4.5	5.2	7.8	2.9
Sales	34,911	34,827	37,265	38,582	41,446	42,281
(annual percentage change)	-1.4	-0.2	7.0	3.5	7.4	2.0
Sales revenue (in millions of vatu)	958	1,101	1,179	1,141	1,349	...
Average revenue per kilowatt hour (in vatu)	24.5	31.5	31.9	29.6	31.9	...
<b>2. Petroleum product imports</b>						
	(In thousands of barrels of oil equivalent) 2/					
Regular gasoline (petrol)	32.8	32.6	32.8	22.9	26.3	...
Distillate/diesel	143.5	145.0	128.0	104.5	154.7	...
Kerosene	6.5	6.4	5.4	4.1	5.5	...
Aviation fuel 3/	1.4	1.1	0.7	0.8	1.3	...
Liquid petroleum gas (LPG)	11.7	12.8	11.3	10.8	...	...
Total	195.9	197.9	178.2	143.1	...	...
(annual percentage change)	0.1	1.0	-10.0	-19.7	...	...

Sources: Energy Unit, Ministry of Lands, Energy, and Geology and Mines; and Union Electrique du Vanuatu, Annual Technical Report (various issues).

1/ Annual production by Union Electrique du Vanuatu in Port Vila and Luganville.

2/ The conversion factor is one kiloliter = 6.29 barrels of oil except for LPG, which is one ton LPG (butane) = 10.90 barrels of oil equivalent.

3/ Excludes jet fuel for re-export.

Table 5. Vanuatu: Tourism Activity, 1996-2001

	1996	1997	1998	1999	2000	2001
Visitor arrivals	46,123	49,624	52,085	50,746	57,373	52,927
(annual percentage change)	5.5	7.6	5.0	-2.6	13.1	-7.7
<i>Of which</i> : Tourists	33,652	36,194	39,441	36,162	44,815	41,319
(annual percentage change)	7.4	7.6	9.0	-8.3	23.9	-7.8
Australia	26,690	28,976	32,498	30,769	36,805	33,492
New Zealand	5,689	6,108	6,180	6,487	7,985	7,485
New Caledonia	5,409	5,431	5,824	5,037	4,114	3,956
Other Pacific countries	2,600	2,998	2,080	2,317	2,029	2,190
Europe	2,644	2,894	2,337	3,063	3,310	2,651
North America	1,223	1,172	1,297	1,343	1,502	1,400
Japan	927	948	965	915	810	789
Other countries 1/	941	1,097	904	815	818	964
	(In percent of total)					
Visitor arrivals						
Australia	57.9	58.4	62.4	60.6	64.2	63.3
New Zealand	12.3	12.3	11.9	12.8	13.9	14.1
New Caledonia	11.7	10.9	11.2	9.9	7.2	7.5
Other Pacific countries	5.6	6.0	4.0	4.6	3.5	4.1
Europe	5.7	5.8	4.5	6.0	5.8	5.0
North America	2.7	2.4	2.5	2.6	2.6	2.6
Japan	2.0	1.9	1.9	1.8	1.4	1.5
Other countries 1/	2.0	2.2	1.7	1.6	1.4	1.8
Average length of stay of visitor (in days)	9.1	8.8	8.2	...	...	...
Room-night capacity (in thousands)	249.2	230.6	235.2	254.9	257.3	257.5
(Capacity utilization, in percent)	50.7	55.3	59.1	51.9	53.2	56.9
Bed-night capacity (in thousands)	580.0	541.7	559.6	591.8	566.8	597.5
(Capacity utilization, in percent)	40.2	46.1	47.2	46.1	39.1	46.7
Cruise-ship passengers	56,534	30,530	25,119	44,853	49,607	52,758
(annual percentage change)	-0.2	-46.0	-17.7	78.6	10.6	6.4

Source: National Statistics Office.

1/ Includes visitor arrivals from no stated country.

Table 6. Vanuatu: Consumer Price Index (CPI), 1997–2002Q2

(Annual percentage change, unless otherwise indicated) 1/

	Weights 2/ (percent)	1997	1998	1999	2000	2001 3/					2002 3/	
						Q1	Q2	Q3	Q4	Average	Q1	Q2
Food (domestic consumption)	30.5	0.7	3.3	1.4	1.9	2.4	3.4	0.8	2.4	2.2	-1.3	0.7
Beverages and tobacco	10.4	1.3	4.3	4.3	4.8	8.3	4.8	1.8	1.2	3.9	7.4	9.1
Clothing and footwear	4.7	6.7	-0.6	1.0	-0.2	-1.0	-0.1	1.1	1.6	0.4	0.0	-0.3
Rent, water, fuel, and electricity	20.7	5.8	0.6	0.0	4.0	10.5	10.7	7.6	6.1	8.7	2.7	1.0
Household articles	8.3	0.7	7.7	4.5	2.3	5.0	2.5	0.9	-1.5	1.7	-2.6	1.3
Transport and communications	13.2	5.4	5.1	2.7	3.2	6.6	6.6	4.1	2.2	4.8	2.3	2.9
Recreation, health, and education	12.3	0.9	3.1	2.2	1.1	1.1	0.2	0.6	0.0	0.5	2.1	1.9
Total	100.0	2.8	3.3	2.2	2.5	5.0	4.8	2.6	2.3	3.7	1.2	2.1
CPI components (2000Q1 =100)												
Food (domestic consumption)	30.5	94.1	97.2	98.6	100.6	102.4	102.9	102.8	103.0	102.8	101.1	103.5
Beverages and tobacco	10.4	92.0	95.9	100.0	108.6	108.3	108.7	108.8	109.9	108.9	116.3	118.7
Clothing and footwear	4.7	99.4	98.8	99.8	98.7	99.0	100.4	100.4	100.3	100.0	99.0	100.1
Rent, water, fuel, and electricity	20.7	98.8	99.3	99.3	106.5	110.5	112.7	112.7	113.0	112.2	113.5	113.8
Household articles	8.3	88.7	95.5	99.8	104.9	105.0	103.4	103.2	103.3	103.7	102.3	104.5
Transport and communications	13.2	92.6	97.3	99.9	106.7	106.6	108.3	108.3	109.0	108.1	109.0	111.4
Recreation, health, and education	12.3	94.7	97.7	99.8	101.5	101.1	101.4	101.7	101.5	101.4	103.2	103.6
Total	100.0	94.2	97.3	99.4	103.7	105.0	105.8	105.8	106.1	105.7	106.3	108.0

Sources: National Statistics Office and Reserve Bank of Vanuatu.

1/ Period average, unless otherwise indicated.

2/ The weights are derived from the 1985 Household and Expenditure Survey and have been revalued in terms of the 1990Q1 prices.

3/ End of period.

Table 7. Vanuatu: Central Government Fiscal Operations, 1997-2001

	1997	1998	1999	2000	2001 Est.
(In millions of vatu)					
Total revenue and grants	6,861	7,054	7,278	6,996	6,887
Revenue	6,209	6,683	6,753	6,623	6,446
Tax 1/	5,719	5,932	5,925	5,919	5,786
Nontax	489	744	797	682	648
Capital	1	7	31	22	12
Grants 2/	653	371	525	373	440
Total expenditure and net lending	7,022	10,111	7,652	9,372	8,082
(excluding net lending)	7,022	9,220	7,654	9,323	8,082
Current expenditure	6,423	6,402	6,509	6,755	6,622
Wages and salaries	3,108	3,478	3,592	3,757	3,734
Purchases of goods and services	2,430	1,857	1,909	2,022	1,840
Transfers 3/	740	863	762	738	800
Interest payments	145	204	247	239	248
Capital expenditure	599	2,818	1,145	2,567	1,460
Net lending	0	891	-2	50	0
Overall balance (excluding onlending)	-160	-2,166	-376	-2,327	-1,196
(including onlending)	-160	-3,057	-375	-2,376	-1,196
Total financing	160	3,057	375	2,376	1,196
Foreign (net)	-29	1,373	643	2,198	388
Borrowing	0	1,374	680	2,301	468
Amortization	29	1	37	104	80
Domestic (net)	189	1,684	-268	179	808
Banking system	0	1,292	-241	630	-215
Nonbank	189	392	-27	-451	1,023
(In percent of GDP)					
Total revenue and grants	24.7	24.2	24.1	22.0	21.5
Revenue	22.4	22.9	22.3	20.8	20.1
Tax	20.6	20.3	19.6	18.6	18.1
Nontax	1.8	2.5	2.6	2.1	2.0
Capital	0.0	0.0	0.1	0.1	0.0
Grants	2.4	1.3	1.7	1.2	1.4
Total expenditure	25.3	34.6	25.3	29.5	25.2
(excluding net lending)	25.3	31.6	25.3	29.3	25.2
Current expenditure	23.1	21.9	21.5	21.2	20.7
Capital expenditure	2.2	9.6	3.8	8.1	4.6
Net lending	0.0	3.1	0.0	0.2	0.0
Overall balance (excluding onlending)	-0.6	-7.4	-1.2	-7.3	-3.7
(including onlending)	-0.6	-10.5	-1.2	-7.5	-3.7
Total financing	0.6	10.5	1.2	7.5	3.7
Foreign (net)	-0.1	4.7	2.1	6.9	1.2
Domestic financing (net)	0.7	5.8	-0.9	0.6	2.5

Sources: Vanuatu authorities; and Fund staff estimates.

1/ Net of tax rebate for import duties paid by Union Electrique du Vanuatu (UNELCO).

2/ Cash grants only.

3/ Excludes transfers to the Development Fund.

Table 8. Vanuatu: Central Government Revenue, 1997-2001

	1997	1998	1999	2000	2001 Est.
(In millions of vatu)					
Total revenue and grants	6,861	7,054	7,278	6,996	6,887
Total revenue	6,209	6,683	6,753	6,623	6,446
Tax revenue	5,719	5,932	5,925	5,919	5,786
Tax on income and profits	132	113	64	64	61
Taxes on goods and services	2,186	2,669	3,371	3,366	3,336
Value added tax	0	861	2,285	2,462	2,361
Licenses 1/	543	358	124	136	111
Turnover tax (wholesale and retail)	468	415	43	45	43
Taxes on tourist services 2/	276	188	103	88	109
Excise/beer duty	30	31	36	53	64
Other 3/	870	817	778	583	648
Taxes on international trade	3,345	3,100	2,436	2,406	2,292
Export duties	98	77	2	0	4
Import duties	3,247	3,023	2,434	2,405	2,288
Beer, wine, and spirits	237	234	221	192	172
Tobacco and tobacco products	225	314	329	370	337
Vehicles	142	162	150	142	90
Motor oil	981	849	655	566	690
Other	1,662	1,463	1,077	1,136	1,000
Other taxes	55	50	55	83	97
Nontax revenue	489	744	797	682	648
Public enterprises 4/ of which: Dividends	41 -142	222 -92	166 -11	196 -30	188 19
Fines and fees 5/	420	507	613	471	436
Other 6/	27	14	19	16	24
Capital revenue (sales of fixed capital assets)	1	7	31	22	12
Grants	653	371	525	373	440
(In percent of total revenue)					
Tax revenue	92.1	88.8	87.7	89.4	89.8
Tax on income and profits	2.1	1.7	0.9	1.0	0.9
Taxes on goods and services	35.2	39.9	49.9	50.8	51.7
Taxes on international trade	53.9	46.4	36.1	36.3	35.6
Export duties	1.6	1.2	0.0	0.0	0.1
Import duties	52.3	45.2	36.0	36.3	35.5
Other taxes	0.9	0.7	0.8	1.3	1.5
Nontax revenue	7.9	11.1	11.8	10.3	10.1
(In percent of GDP)					
Total revenue	22.4	22.9	22.3	20.8	20.1
Tax revenue	20.6	20.3	19.6	18.6	18.1
Tax on income and profits	0.5	0.4	0.2	0.2	0.2
Taxes on goods and services	7.9	9.1	11.2	10.6	10.4
Taxes on international trade	12.0	10.6	8.1	7.6	7.2
Export duties	0.4	0.3	0.0	0.0	0.0
Import duties	11.7	10.3	8.1	7.6	7.1
Other taxes	0.2	0.2	0.2	0.3	0.3
Nontax revenue	1.8	2.5	2.6	2.1	2.0
Memorandum item:					
Effective import duties (in percent of imports)	30.1	26.8	18.8	19.4	17.5

Sources: Vanuatu authorities; and Fund staff estimates.

1/ Business, cocoa, liquor, and vehicle licenses; fishing licenses and agreement fees; arms and prospecting licenses; and air traffic rights.

2/ Hotel/restaurant sales tax.

3/ Gaming, lotteries, and video tax; rent tax; and cheque levy.

4/ Gross income of water suppliers and post and telecommunications providers.

5/ Police and immigration fees, primary education fees, hospital fees, fines and forfeits, and other miscellaneous fees and sales.

6/ Includes port and marine revenue, other property income, and miscellaneous customs revenue.

Table 9. Vanuatu: Central Government Current Expenditure, 1997-2001

	1997	1998	1999	2000	2001 Est.
(In millions of vatu)					
1. Economic classification					
Total current expenditure 1/	6,423	6,402	6,509	6,755	6,622
Wages and salaries	3,108	3,478	3,592	3,757	3,734
Purchases of goods and services	2,430	1,857	1,909	2,022	1,840
Interest payments 2/	145	204	247	239	248
Transfers 3/	740	863	762	738	800
(In percent of current expenditure)					
Wages and salaries	48.4	54.3	55.2	55.6	56.4
Purchases of goods and services	37.8	29.0	29.3	29.9	27.8
Interest payments	2.3	3.2	3.8	3.5	3.8
Transfers	11.5	13.5	11.7	10.9	12.1
(In millions of vatu)					
2. Functional classification 4/					
Total	6,423	7,118	7,232	7,259	7,295
General public services	2,122	1,671	1,781	1,795	1,894
Public order and safety	502	694	645	673	662
Education	1,396	1,582	1,732	1,843	1,925
Health	825	819	842	878	902
Economic affairs and services	1,001	2,044	2,050	1,879	1,752
Agriculture, fisheries, and forestry	235	298	289	259	266
Mining, manufacturing, and construction	389	113	131	151	114
Transportation and communications	288	625	511	468	471
Other	89	1,007	1,119	1,001	900
Other expenditure 5/	577	308	183	192	160
(In percent of current expenditure)					
General public services	33.0	26.1	27.4	26.6	28.6
Public order and safety	7.8	10.8	9.9	10.0	10.0
Education	21.7	24.7	26.6	27.3	29.1
Health	12.8	12.8	12.9	13.0	13.6
Economic affairs and services	15.6	31.9	31.5	27.8	26.5
Other expenditure	9.0	4.8	2.8	2.8	2.4
(In millions of vatu)					
Memorandum item:					
Transfers to the Development Fund	50	70	...	225	325

Sources: Vanuatu authorities; and Fund staff estimates.

1/ Excludes technical assistance.

2/ Includes service charges on loans.

3/ Excludes transfers to the Development Fund.

4/ For 1998-2001, includes acquisition of fixed assets and net lending.

5/ Excludes loan principal repayments, bond redemptions, and transfers to the Development Fund.

Table 10. Vanuatu: Government Development Fund, 1997–2001

(In millions of vatu)

	1997	1998	1999	2000	2001
<b>1. Resources</b>					
Foreign grants (in cash)	623	294	668	964	647
Australia	123	60	282	104	141
Canada	7	1	1	7	0
China	1	0	115	5	168
European Development Fund	130	15	0	9	0
France	38	44	9	0	0
Japan	4	7	5	4	29
New Zealand	82	85	79	112	73
STABEX receipts	0	0	0	3	3
United Kingdom	31	12	2	8	11
United Nations	20	20	12	36	25
United Nations Development Program	27	2	8	13	13
World Health Organisation	11	6	4	4	12
Other	149	42	151	659	172
Other resources	106	2,868	1,644	1,410	394
Transfers from recurrent budget	...	...	...	...	...
Transfers from STABEX fund	...	...	...	...	...
Local NGOs	...	...	...	...	...
AsDB/IDA/CFD/China loans	106	1,503	1,644	1,410	394
Domestic financing	...	1,295	...	...	...
Other	...	70	...	...	...
<b>Total resources</b>	<b>729</b>	<b>3,162</b>	<b>2,312</b>	<b>2,374</b>	<b>1,041</b>
<b>2. Expenditure</b>					
Agriculture, land and natural resources	90	112	124	135	138
Transport and communications	207	346	745	1,526	454
Internal affairs	21	17	26	61	73
Health	61	28	177	45	62
Education, culture and sports	169	158	257	109	50
Constitutional	9	418	220	137	93
Finance, commerce and industry	73	1,495	592	509	439
General administration	2	17	26	65	181
<b>Total expenditure (in cash)</b>	<b>632</b>	<b>2,591</b>	<b>2,167</b>	<b>2,587</b>	<b>1,490</b>
Development Fund balance	97	571	145	-213	-449
Stock of assets in the Development Fund 1/	188	759	904	691	242
Memorandum item:					
Grants-in-kind	1,387	1,805	1,215	1,795	1,570

Source: Vanuatu authorities.

1/ End of period



Table 11. Vanuatu: Operations of the Vanuatu National Provident Fund, 1997-2001 1/

(In millions of vatu, unless otherwise indicated)

	1997	1998	1999	2000	2001
<b>1. Inflows and outflows</b>					
Balance (at beginning of year)	3,190	3,621	689	1,121	1,816
Inflows	723	647	559	851	1,530
Contribution received	489	497	446	726	1,024
Interest income	...	124	28	78	121
Other operating income	...	25	17	42	60
Government grants	...	...	68	5	325
Outflows	292	3,578	127	156	230
Withdrawals/payments	130	3,373	29	57	108
Operating expenses	162	206	98	99	122
Personnel expenses	...	63	37	47	52
Depreciation and amortization	...	38	27	19	17
Others	...	105	34	34	53
Balance (at end-year)	3,621	689	1,121	1,816	3,115
<b>2. Investment portfolio</b>					
Cash and equivalents 1/	1,100	-114	492	632	913
Receivables	1,034	21	16	34	58
Government bonds and notes	922	200	60	493	1,176
U.S. Treasury notes	...	...	...	323	610
Vanuatu government bonds 2/	922	200	60	170	566
Other investments					
Property investment	446	550	505	496	506
Machinery and equipment	56	32	22	24	22
Others 2/	64	0	26	137	441
Memorandum item:					
Number of contributing members	19,566	16,163	22,865	26,976	18,607

Source: Vanuatu National Provident Fund.

1/ Net of bank overdrafts.

2/ In 2001, includes loan to government related to the Asset Management Unit (VT 225 million).

Table 12. Vanuatu: Reserve Bank of Vanuatu Balance Sheet, 1997-2001

(In millions of vatu, end of period)

	1997	1998	1999	2000	2001
Net foreign assets 1/	4,729	5,863	5,406	5,471	5,375
Reserve Bank of Vanuatu	4,589	5,730	5,290	5,355	5,259
Assets	4,599	5,753	5,509	5,583	5,531
Liabilities	10	23	219	228	273
Treasury foreign assets	140	132	116	116	116
Net domestic assets	-1,275	-2,380	-1,298	-1,090	-938
Net claims on government	-1,206	-457	-499	-340	-111
Claims on public enterprises	261	36	32	58	294
Claims on commercial banks	256	-1,233	19	-99	-446
Other items (net)	-586	-725	-849	-709	-675
Reserve money	3,454	3,483	4,108	4,382	4,438
(annual percentage change)	0.9	0.8	18.0	6.6	1.3
Currency outside banks	1,662	2,042	1,936	1,834	1,941
Currency held by banks	257	194	309	276	297
Commercial banks' deposits	1,535	1,248	1,864	2,271	2,199

Source: Reserve Bank of Vanuatu; and Fund staff estimates.

1/ Reserve Bank of Vanuatu and small Treasury foreign exchange operations.

Table 13. Vanuatu: Commercial Banks Balance Sheet, 1997-2001

(In millions of vatu; end of period)

	1997	1998	1999	2000	2001
Reserves	1,792	1,442	2,173	2,547	2,497
Cash on hand	257	194	309	276	297
Balances with Reserve Bank	1,535	1,248	1,864	2,271	2,199
Net foreign assets	19,498	21,411	16,799	19,206	20,937
Assets	25,462	24,657	21,172	22,940	25,115
Liabilities	5,963	3,246	4,373	3,735	4,178
Net credit on government 1/	444	991	789	1,260	815
Claims	496	1,131	930	1,417	1,108
Vatu 2/	496	1,131	930	1,417	1,108
Foreign currency	0	0	0	0	0
Deposits	52	140	141	157	292
Vatu	50	140	140	157	292
Foreign currency	2	0	1	0	0
Claims on public enterprises	134	108	53	100	28
Vatu	134	108	53	100	28
Foreign currency	0	0	0	0	0
Claims on private sector	9,580	10,605	12,158	11,556	12,295
Vatu	8,090	9,136	9,172	9,453	9,802
Foreign currency	1,490	1,469	2,986	2,103	2,494
Monetary liabilities	29,696	32,994	29,674	31,737	33,617
Demand deposits	4,941	5,368	5,296	6,051	5,974
Vatu	2,809	2,758	2,607	2,935	3,095
Foreign currency	2,132	2,609	2,689	3,116	2,880
Time and savings deposits	24,754	27,626	24,378	25,686	27,643
Vatu	6,428	7,118	6,371	6,401	6,344
Foreign currency	18,327	20,508	18,006	19,286	21,299
Credit from the monetary authorities	256	0	316	0	0
Other items (net)	1,752	1,563	2,297	2,932	2,955

Source: Reserve Bank of Vanuatu.

1/ Includes claims on municipalities.

Table 14. Vanuatu: Monetary Survey, 1997-2001

	1997	1998	1999	2000	2001
(In millions of vatu; end of period)					
Net foreign assets	24,228	27,273	22,205	24,677	26,312
Monetary authorities 1/	4,729	5,863	5,406	5,471	5,375
Commercial banks	19,498	21,411	16,799	19,206	20,937
Net domestic assets	7,130	7,762	9,405	8,895	9,246
Domestic credit	9,217	11,284	12,536	12,638	13,327
Claims on government (net)	-761	535	290	920	705
Claims on municipalities	4	0	4	3	5
Claims on nonfinancial public enterprises	394	144	85	158	322
Claims on private sector	9,580	10,605	12,158	11,556	12,295
Other items (net)	-2,087	-3,522	-3,131	-3,743	-4,081
Total broad money	31,358	35,035	31,610	33,571	35,558
Narrow money	4,471	4,800	4,543	4,769	5,036
Currency outside banks	1,662	2,042	1,936	1,834	1,941
Demand deposits (vatu)	2,809	2,758	2,607	2,935	3,095
Quasi-money	26,887	30,235	27,067	28,802	30,523
Time and savings deposits (vatu)	6,428	7,118	6,371	6,401	6,344
Time and savings deposits in foreign currency	18,327	20,508	18,006	19,286	21,299
Demand deposits in foreign currency	2,132	2,609	2,689	3,116	2,880
(Annual percentage change)					
Total broad money	0.1	11.7	-9.8	6.2	5.9
Of which: Vatu broad money	0.0	9.3	-8.4	2.3	1.9
Narrow money	6.8	7.3	-5.4	5.0	5.6
Quasi-money	-1.0	12.5	-10.5	6.4	6.0
Of which: Foreign currency deposits	0.1	13.0	-10.5	8.2	7.9
Net domestic assets	5.6	8.9	21.2	-5.4	4.0
Domestic credit	-3.1	22.4	11.1	0.8	5.4
Private sector credit	-3.0	10.7	14.6	-4.9	6.4
Memorandum items:					
Foreign currency deposits (share of total deposits)	68.9	70.1	69.7	70.6	71.9
GDP/narrow money	6.2	6.1	6.7	6.7	6.4
GDP/vatu broad money	2.5	2.5	2.8	2.8	2.8

Sources: Vanuatu authorities; and Fund staff estimates.

1/ Reserve Bank of Vanuatu and small Treasury foreign exchange operations.

Table 15. Vanuatu: Commercial Bank Credit to Residents by Sector and by Currency, 1997-2001 1/

(In percent of total credit)

	1997	1998	1999	2000	2001
Total bank credit	99.6	99.9	99.7	99.2	99.3
Private sector	3.6	3.7	2.2	2.2	2.2
Agriculture and fisheries	4.6	4.1	2.5	2.4	3.5
Mining and manufacturing	12.1	17.1	23.4	21.7	19.0
Construction	6.6	7.7	6.3	9.1	8.0
Transport	0.0	2.2	2.1	2.0	1.9
Public utilities	17.6	12.9	11.2	14.9	13.8
Wholesale and retail trade	7.1	5.1	3.7	3.7	7.5
Tourism	4.2	3.2	1.6	1.7	1.5
Entertainment and catering	1.9	1.2	1.7	4.3	7.8
Professional and other services	35.1	37.1	38.8	36.7	34.1
Personal 2/	0.4	0.2	0.1	0.3	0.3
Financial institutions 3/	7.0	5.4	6.0	0.2	-0.2
Other (including errors and omissions)	0.4	0.1	0.3	0.8	0.7
Public enterprises					
Bank credit (in vatu)	84.9	85.2	75.2	81.2	79.5
Private sector	84.5	85.1	74.9	80.4	78.8
Agriculture and fisheries	3.5	3.5	2.1	2.1	2.2
Mining and manufacturing	3.9	3.7	2.2	2.2	3.1
Construction	11.7	11.3	17.5	14.6	16.6
Transport	6.4	7.4	6.3	8.5	7.0
Public utilities	0.0	2.2	2.1	2.0	1.8
Wholesale and retail trade	14.7	12.0	10.8	13.8	13.3
Tourism	3.4	3.8	2.7	2.3	2.5
Entertainment and catering	4.0	3.2	1.4	1.5	1.4
Professional and other services	1.8	1.2	1.6	4.1	3.7
Personal 2/	29.1	32.7	23.4	28.5	27.0
Financial institutions 3/	0.2	0.2	0.1	0.1	0.1
Other (including errors and omissions)	6.2	4.0	4.8	0.6	0.3
Public enterprises	0.4	0.1	0.3	0.8	0.7
Bank credit (in foreign currency)	15.1	14.8	24.8	18.7	20.4
Private sector	15.1	14.8	24.8	18.7	20.4
Agriculture and fisheries	0.0	0.2	0.1	0.0	0.0
Mining and manufacturing	0.7	0.5	0.4	0.2	0.4
Construction	0.4	5.8	6.0	7.0	2.4
Transport	0.2	0.3	0.0	0.5	1.0
Public utilities	0.0	0.0	0.0	0.0	0.1
Wholesale and retail trade	2.8	0.9	0.4	1.1	0.5
Tourism	3.7	1.4	1.0	1.4	5.0
Entertainment and catering	0.2	0.0	0.2	0.2	0.1
Professional and other services	0.1	0.0	0.1	0.2	4.1
Personal 2/	6.1	4.4	16.2	8.2	7.1
Financial institutions 3/	0.2	0.0	0.0	0.3	0.2
Other (including errors and omissions)	0.8	1.4	1.2	-0.4	-0.5
Public enterprises	0.0	0.0	0.0	0.0	0.0

Source: Reserve Bank of Vanuatu, *Quarterly Economic Review*.

1/ Excludes commercial credit to the government.

2/ Includes housing and land purchases.

3/ Includes public financial institutions.

Table 16. Vanuatu: Selected Interest Rates, 1997–June 2002

(In percent per annum, end of period)

	1997	1998	1999	2000	2001				2002 June
					March	June	Sept.	Dec.	
Vatu deposits									
Savings	0.50 - 3.25	0.50 - 5.00	0.50 - 3.50	0.50 - 4.00	0.50 - 4.00	0.50 - 4.00	0.50 - 4.00	0.50 - 4.00	0.50 - 2.00
One month	3.00 - 6.00	2.00 - 6.00	1.25 - 6.00	1.25 - 4.50	1.25 - 5.00	1.25 - 4.25	1.25 - 4.00	1.25 - 3.86	1.00 - 4.00
Two to six months	3.00 - 6.00	2.25 - 6.00	1.25 - 6.10	1.25 - 5.00	1.25 - 5.00	1.25 - 4.50	1.25 - 5.50	1.25 - 5.50	1.00 - 4.75
More than six months	3.00 - 6.30	2.00 - 6.00	1.25 - 6.10	1.75 - 6.00	1.75 - 5.00	1.50 - 7.00	1.50 - 6.50	1.50 - 7.00	1.25 - 7.00
Vatu advances									
Commercial	10.50 - 19.00	11.75 - 18.00	10.75 - 18.00	9.75 - 18.00	9.75 - 18.00	9.75 - 18.00	9.75 - 18.00	9.75 - 18.00	10.25 - 20.50
Personal	12.00 - 17.00	10.25 - 23.00	10.00 - 21.00	11.75 - 25.00	11.75 - 25.00	11.75 - 25.00	11.75 - 25.00	11.75 - 25.00	10.25 - 25.00
Housing	10.50 - 14.00	8.75 - 17.00	8.75 - 16.25	10.95 - 18.25	6.00 - 16.25	6.00 - 16.25	6.00 - 14.25	6.00 - 16.25	6.50 - 16.25
Foreign exchange deposits 1/	3.00 - 4.20	2.50 - 4.30	2.30 - 4.75	3.00 - 5.56	3.00 - 5.04	1.79 - 4.73	1.79 - 4.57	2.66 - 3.86	1.68 - 4.35
Weighted averages 2/									
Bank loans	11.90	13.10	12.30	13.47	13.31	13.30	13.39	13.43	13.84
Bank deposits	3.60	4.10	3.00	3.40	2.31	2.21	1.92	2.13	2.02
Fixed deposits	5.10	5.30	3.80	4.14	3.71	3.61	3.70	3.55	3.41
Memorandum item:									
Interest spread 3/	8.30	9.00	9.30	10.07	11.00	11.09	11.47	11.30	11.82

Source: Vanuatu authorities.

1/ On 30-day Australian dollar deposits.

2/ Weighted on basis of share of loans and deposits at various rates of interest shown in the banks' quarterly returns.

3/ Defined as the difference between the weighted averages of loan and deposit rates.

Table 17. Vanuatu: Balance of Payments, 1997-2001 1/

(In millions of U.S. dollars)

	1997	1998	1999	2000	2001
Current account balance	-2.5	6.2	-12.2	4.7	1.8
(excluding official transfers)	-17.4	-8.0	-31.1	-13.4	-11.6
Trade balance	-45.6	-42.5	-57.8	-50.0	-58.0
Exports (f.o.b.)	35.3	33.9	25.7	27.1	19.9
Domestic exports	30.8	30.6	22.4	24.2	15.8
Reexports	4.5	3.3	3.3	3.0	4.1
Imports (f.o.b.)	80.9	76.4	83.5	77.2	77.8
Domestic consumption	77.8	73.9	82.8	75.0	74.9
Imports for reexports	3.0	2.6	0.7	2.2	2.9
Services	48.4	57.4	42.7	58.8	46.1
Receipts	100.0	114.3	114.8	129.3	118.9
Of which: travel	50.1	60.6	50.0	56.0	46.0
Payments	51.6	56.9	72.1	70.4	72.8
Income	-11.6	-8.3	-5.1	-12.9	-4.0
Receipts	20.0	21.0	21.0	18.7	17.2
Payments	31.6	29.3	26.1	31.6	21.1
Current transfers (net)	6.3	-0.3	8.0	8.9	17.7
Official transfers (net)	14.9	14.2	18.9	18.1	13.5
Private transfers (net) 1/	-8.6	-14.6	-10.9	-9.2	4.2
Capital and financial account balance	7.5	-7.3	6.0	-2.6	-10.4
Capital account	-18.9	-25.2	-49.7	-20.0	-15.9
Official capital transfers (net)	8.8	11.6	7.6	10.6	11.8
Private capital transfers (net)	-27.6	-36.8	-57.3	-30.6	-27.7
Financial account	26.4	17.8	55.7	17.4	5.5
Foreign direct investment	24.0	20.4	13.4	20.2	17.9
Portfolio investment (net)	-0.7	3.5	-1.0	0.7	-4.3
Government	0.3	10.8	5.0	15.9	-3.4
Disbursements	0.5	10.8	5.3	16.6	3.2
Amortization	-0.2	0.0	-0.3	-0.8	-6.6
Other investment	2.8	-16.8	38.3	-19.4	-4.7
Of which: Commercial banks	-1.2	-15.0	36.7	-19.4	-11.9
Errors and omissions	-9.0	6.0	6.3	-7.4	1.4
Overall balance	-3.9	4.9	0.1	-5.3	-7.2
Financing	3.9	-4.9	-0.1	5.3	7.2
Change in RBV net official reserves	3.9	-4.9	-0.1	5.3	1.2
Debt forgiveness 2/	0.0	0.0	0.0	0.0	6.0
Memorandum items:					
Gross official reserves (in million U.S. dollars)	39.7	44.3	42.7	39.1	37.7
(in months of prospective imports)	6.2	6.4	6.6	6.0	5.7
(in months of prospective imports of goods and services)	3.6	3.4	3.5	3.1	2.9
Exports (annual percentage change)	17.0	-3.9	-24.3	5.6	-26.7
Imports (annual percentage change)	-4.2	-6.6	11.1	-9.1	1.1
Current account balance (in percent of GDP)	-1.0	2.7	-5.2	2.1	0.8
(excluding official transfers)	-7.3	-3.5	-13.3	-5.8	-5.3

Source: Reserve Bank of Vanuatu; and Fund staff estimates.

1/ Data for 2000 and 2001 are converted from vatu to U.S. dollars using annual average exchange rates.

2/ In 2001, the outstanding balance on a loan from China for construction of the University of South Pacific Law School was forgiven.

Table 18. Vanuatu: Merchandise Exports by Commodity, 1997-2001

(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001
Total exports	35.3	33.9	25.7	27.1	19.9
(annual percentage change)	17.0	-3.9	-24.3	5.6	-26.7
Exports, f.o.b.	30.8	30.6	22.4	24.2	15.8
Copra	17.3	13.4	10.7	7.9	2.2
Coconut oil	0.0	0.0	0.0	0.9	2.5
Cocoa	2.1	1.3	1.1	1.1	0.4
Beef	3.6	2.5	3.1	2.7	1.6
Timber	4.4	4.1	2.6	3.0	2.3
Kava	0.9	7.0	2.4	3.5	3.5
Other	2.5	2.4	2.5	5.0	3.3
Reexports	4.5	3.3	3.3	3.0	4.1
In percent of total value					
Exports, f.o.b.	87.2	90.4	87.3	89.1	79.5
Copra	49.0	39.4	41.8	29.2	11.2
Coconut oil	0.0	0.0	0.0	3.4	12.5
Cocoa	5.9	3.8	4.3	3.9	2.2
Beef	10.2	7.5	12.2	10.1	8.3
Timber	12.6	12.1	10.0	11.1	11.5
Kava	2.5	20.5	9.5	12.8	17.4
Other	7.0	7.0	9.6	18.6	16.5
Reexports	12.8	9.6	12.7	10.9	20.5
Volume of exports (in metric tons)					
Copra	47,247	40,344	27,732	30,434	14,258
Coconut oil	...	...	...	1,812	8,516
Cocoa	1,615	881	1,104	1,536	538
Beef	1,898	1,298	1,577	1,361	815
Timber	13,490	11,789	11,069	8,552	5,972
Kava	105	749	334	555	935
Volume of exports (annual percentage change)					
Copra	57.4	-14.6	-31.3	9.7	-53.2
Coconut oil	...	...	...	...	370.0
Cocoa	29.5	-45.4	25.3	39.1	-65.0
Beef	19.8	-31.6	21.5	-13.7	-40.1
Timber	85.8	-12.6	-6.1	-22.7	-30.2
Kava	64.1	613.3	-55.4	66.2	68.5
Unit value (U.S. dollars per ton)					
Copra	366	331	387	260	155
Coconut oil	...	...	...	507	292
Cocoa	1,661	801	1,004	692	816
Beef	1,901	1,964	1,985	2,019	2,013
Timber	328	347	232	351	384
Kava	8,384	9,297	7,260	6,227	3,692

Source: Reserve Bank of Vanuatu; and Fund staff estimates.



Table 19. Vanuatu: Merchandise Imports by Commodity, 1997–2001

(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001
Imports, c.i.f.	96.9	91.5	101.2	92.4	93.2
(annual percentage change)	-3.5	-5.5	10.6	-8.7	0.9
(excluding mineral fuels)	86.9	84.1	94.5	79.4	80.5
(annual percentage change)	-5.2	-3.1	12.3	-16.0	1.3
For domestic consumption	93.2	88.4	100.3	89.8	89.7
Food and live animals	18.5	17.8	18.3	15.7	15.4
Beverages and tobacco	3.4	3.6	3.2	2.7	2.5
Raw materials, excluding fuels	1.3	1.4	1.2	1.8	1.1
Mineral fuels	10.0	7.4	6.7	13.0	12.8
Animal, vegetable, and oil fats	0.5	0.5	0.5	0.5	0.3
Chemicals	5.8	5.3	5.5	5.8	9.9
Basic manufactures	14.3	12.7	14.5	12.5	11.7
Machinery and transportation equipment	24.2	24.8	28.9	24.4	22.1
Miscellaneous manufactured goods	11.0	9.9	15.2	8.3	7.6
Goods not specified	1.5	1.9	1.6	1.7	3.1
Other	2.9	3.2	4.7	3.4	3.2
Reexports	3.6	3.1	0.9	2.6	3.5
(In percent of total imports for domestic consumption)					
Food and live animals	19.8	20.2	18.3	17.5	17.1
Beverages and tobacco	3.6	4.1	3.2	3.0	2.8
Raw materials, excluding fuels	1.4	1.5	1.2	2.0	1.3
Mineral fuels	10.7	8.3	6.7	14.5	14.2
Animal, vegetable, and oil fats	0.5	0.6	0.5	0.5	0.4
Chemicals	6.2	6.0	5.4	6.5	11.1
Basic manufactures	15.3	14.3	14.5	13.9	13.0
Machinery and transportation equipment	25.9	28.1	28.8	27.1	24.6
Miscellaneous manufactured goods	11.7	11.2	15.1	9.2	8.5
Goods not specified	1.6	2.1	1.6	1.9	3.4
Other	3.1	3.6	4.7	3.7	3.5

Source: Reserve Bank of Vanuatu; and Fund staff estimates.

Table 20. Vanuatu: Direction of Trade, 1997-2001

(In percent of total)

	1997	1998	1999	2000	2001
<b>Exports, f.o.b. 1/</b>					
Australia	2.4	3.1	2.8	6.1	21.5
New Zealand	1.1	1.3	1.7	3.4	3.7
New Caledonia	4.4	3.4	1.9	5.9	5.0
Japan	10.5	11.2	19.4	12.4	16.9
South Korea	4.5	2.1	4.3	0.9	1.7
Bangladesh	17.5	15.0	5.3	22.2	7.6
European Union	45.9	36.5	43.9	18.9	6.5
Other	13.7	27.3	20.7	30.2	36.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Imports, c.i.f. 2/</b>					
Australia	42.1	43.0	42.8	45.9	43.0
New Zealand	12.2	10.8	13.5	11.7	16.4
New Caledonia	8.4	7.4	5.5	4.7	3.4
Japan	7.4	6.4	6.0	5.7	4.2
Fiji	6.0	5.2	5.2	8.8	8.8
France	3.7	6.2	3.8	2.6	4.6
Hong Kong	2.6	2.6	2.6	1.8	1.3
Singapore	2.7	2.8	2.0	2.7	4.2
Other	14.8	15.6	18.6	16.2	14.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Reserve Bank of Vanuatu.

1/ Domestic exports.

2/ Imports for domestic consumption.

Table 21. Vanuatu: External Public Debt and Debt Service, 1997–2001

(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001
Total external debt outstanding (disbursed) 1/					
Beginning-of-period stock	42.0	42.2	53.0	55.7	77.0
Net flow	0.2	10.8	2.7	21.4	-7.9
Disbursements	0.6	10.8	5.0	16.6	3.2
Amortization	-0.2	0.0	-0.3	-0.8	-6.6
Adjustment 2/	-0.2	0.0	-2.0	5.5	-4.6
End-of-period stock	42.2	53.0	55.7	77.0	69.1
Debt service	0.4	0.4	0.8	1.2	7.1
Principal	0.2	0.0	0.3	0.8	6.6
Interest	0.1	0.4	0.5	0.4	0.5
Memorandum items:					
External debt/GDP (in percent)	17.6	23.1	23.8	33.5	31.6
Debt service ratio (in percent) 3/ 4/	0.3	0.3	0.5	0.8	5.1

Source: Vanuatu authorities; and Fund staff estimates.

1/ Medium- and long-term public debt only.

2/ Includes valuation changes.

3/ In percent of exports of goods and non-factor services.

4/ In 2001, includes debt forgiveness.