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Vanuatu: Selected Issues and Statistical Appendix

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VANUATU

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

February 10, 2005

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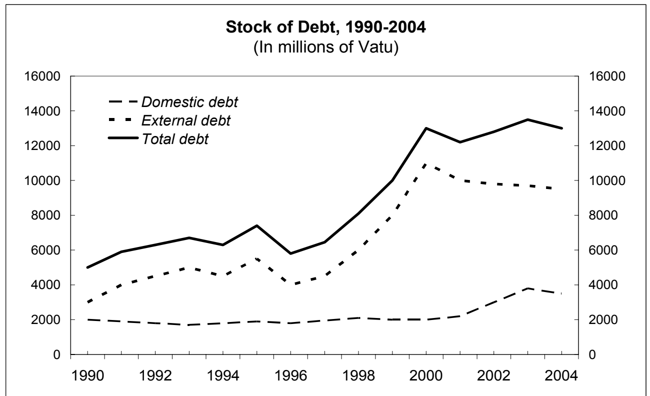
I. Fiscal Management and Strategy for Growth[1]

A. Introduction

1. **Over the past several years, Vanuatu's fiscal policy has turned toward consolidation through fiscal discipline with the objective of reining in previously rapidly rising debt.** However, the resulting constraints on government spending, especially on capital outlays, have limited the scope for private sector-led growth and development. A change in expenditure priorities would support medium-term growth and development objectives, while at the same time continuing to reduce the debt burden. Four areas warranting special attention are discretionary tax exemptions, the public enterprises, the public wage bill, and inefficiencies in education expenditure.

B. Overview of Recent Fiscal Policy and Outcomes



Sources: Vanuatu authorities; and staff estimates.

2. **Fueled chiefly by large donor-financed infrastructure projects and sizable capital injections for government financial institutions, Vanuatu's external debt rose rapidly during the 1990s, to 38.9 percent of GDP in 2000 from 15.6 percent of GDP in 1990.**[2] In light of rising concerns about increasing debt service requirements, in 2000 the government introduced new guidelines establishing a ceiling on the total stock of debt of 40 percent of GDP and introducing strengthened criteria governing new borrowing.[3] Under the new guidelines, the government will not undertake net new borrowing to finance recurrent expenditures and borrowing for development projects would be the exception rather than the rule. In addition, the financial rate of return should cover the costs of servicing the debt. As a result, on average, 95 percent of ongoing development projects are funded by grants from donors.

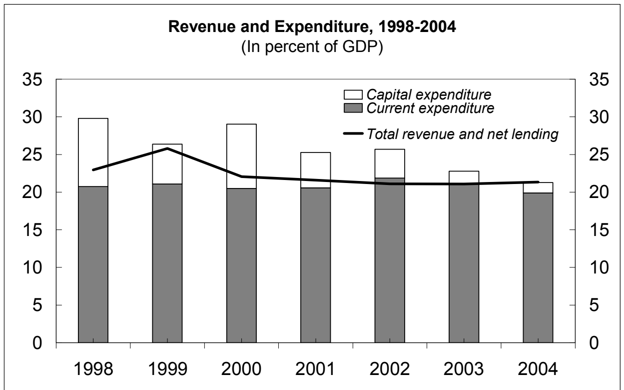
[1] Prepared by Ayako Fujita (APD).

[2] Both the infrastructure and bank financing were carried out in the context of the 1998 Comprehensive Reform Program (CRP), and sponsored by the Asian Development Bank and other donors.

[3] These guidelines were set out in the Public Financial and Economic Management Act of 1998.

3. **In parallel, the government took steps to strengthen the tax system and control expenditure.** These measures included: 1) introducing new technology in 2001 to improve customs administration; 2) establishing the Revenue and Investment Review Committee, charged with preparing and introducing recommendations for broadening the government's revenue base, with the assistance of a foreign advisor; and 3) initiating a system (the Financial Visa System) for maintaining control over new public service recruitment, under which departments must obtain prior approval from the Ministry of Finance and Economic Planning before hiring new staff.[4]

4. **These measures have succeeded in keeping the total amount of public debt at about the targeted level of 40 percent of GDP as fiscal deficits have been sharply reduced over the past four years and the fiscal stance has been contractionary (Table I.1).** However, achieving the target has come largely at the expense of development expenditure, as current expenditures remained largely unchanged.



Sources: Vanuatu authorities; and staff estimates.

Table I.1. Fiscal Stance, 2000-03

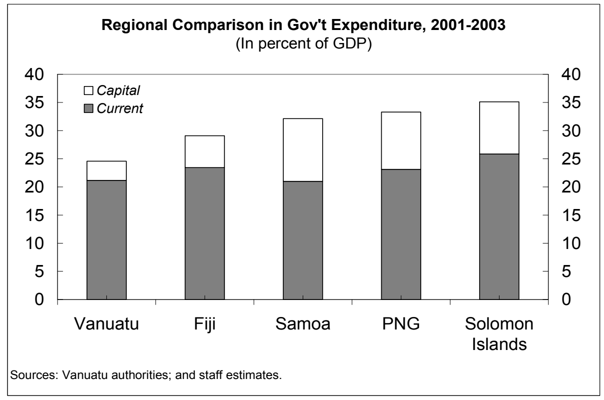
	2000	2001	2002	2003
	(In percent of GDP; unless otherwise indicated)			
Overall balance	-7.0	-3.7	-4.1	-1.7
Primary balance 1/	-6.2	-2.8	-3.1	-0.7
Neutral fiscal balance 2/	-4.8	-6.3	-7.0	-4.8
Fiscal stance 3/	2.2	-2.6	-2.9	-3.1
Fiscal impulse 4/	...	-4.8	-0.3	-0.2
Memorandum item:				
Real GDP growth (in percent)	2.7	-2.7	-4.9	2.4

1/ The primary balance is defined as the overall balance excluding interest payments.
2/ Neutral revenue is defined as the revenue ratio in the base years 1998-2000, multiplied by actual GDP; neutral expenditure is the expenditure ratio in the base years multiplied by potential GDP assumed to be 2.5 percent in the current year.
3/ Defined as difference between the actual and the neutral fiscal balance. A positive fiscal stance represents an expansionary fiscal policy relative to the base years, while a negative fiscal stance represents a contractionary fiscal policy relative to the base years.
4/ Defined as the change in fiscal stance between succeeding years.

[4] In 2004, the application of the Financial Visa System was extended to the education sector.

C. Medium-Term Fiscal and Economic Outlook

5. **Over the past decade, growth in Vanuatu has been below the average of comparator Pacific Island countries (PICs).** Real GDP growth has averaged about 1 percent a year, against an average population growth of 2.6 percent. Slow implementation of structural reforms since 2001, along with sharp cutbacks in capital outlays and existing poor infrastructure compared with other PICs, may have limited the scope for private sector-led growth, dimming prospects for the medium term.



6. **The government's 2004-06 economic and financial policy sets long-term objectives of both fiscal consolidation and higher economic growth.**[5] Under this policy, strengthened fiscal discipline would lead to surpluses over the medium term to allow for debt repayment and contingencies such as natural disasters. At the same time, development expenditure should be increased to about 25 percent of total expenditure with the goal of achieving a higher level of sustainable economic growth. However, development expenditure has declined through 2004 (measured in Vatu, or as share of total expenditure or of GDP). Capital spending is estimated at about 7 percent of total expenditure in the 2004 budget outcome, the lowest in the region. Thus, there remains considerable distance before realizing the long-term strategy.

D. Expenditure Priorities

7. **The medium-term fiscal strategy outlined above highlights the need to create room for the needed development spending.** Given the possible negative impact of introducing new taxes and the time required for further significant improvements in revenue collection, a review of the existing expenditure structure to identify lower priority spending would be useful. Four areas that might benefit from streamlining are the existing tax exemption schemes, transfers to the inefficient public enterprise sector, the high wage bill, and the poor performance in the education sector relative to cost.

Tax exemptions

8. **Existing tax exemptions provided to selected industries, statutory authorities, and the private electricity company are one area for review.** The current regulatory framework gives the Director of Customs discretionary authority to grant duty exemptions for selected industries, on the recommendation of relevant Departments. These exemptions

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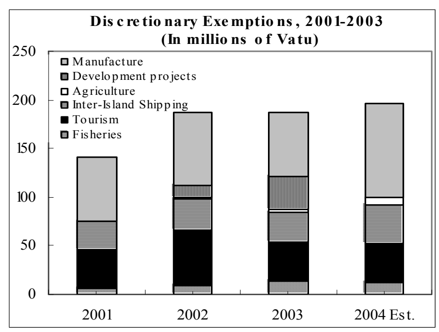
[5] Government of Republic of Vanuatu, *Fiscal Strategy Report, 2004*.

are justified by the government on the grounds that they benefit the economy as a whole, and do not therefore require any specific criteria or careful analysis (Box I.1). In addition, most statutory authorities, such as the Vanuatu National Provident Fund and the Vanuatu Maritime Authority, are granted an “exemption from all taxes”, along with direct budgetary support under the regulations establishing each body. Unelco, the privatized electricity monopoly, also holds long-term exemption status for fuel imports for electricity generation[6].

9. **A careful reevaluation of the exemption scheme is proposed, balancing potential benefits if the resources were allocated for other productive outlays.** If adequate benefits are not identified relative to foregone revenue, these exemptions could be removed and the resources could be allocated for necessary infrastructure to improve the attractiveness of the country’s investment climate. An alternative option is tightening exemptions through setting certain criteria or introducing a ceiling for providing them. Removal of these exemptions would generate additional revenue of about 1.5 percent of GDP.

Box. I.1. Discretionary Tax Exemptions

Discretionary tax exemptions are granted to selected industries. Under the Import Duties Act and the Value Added Tax (VAT) Act, the Director of Customs holds the final decision-making power to grant exemptions, while other Departments provide recommendations to the Director to accept or reject applications for exemptions. Goods eligible for possible exemption include imports for manufacture, agriculture, horticulture, forestry, inter-island shipping, tourism development projects, mineral exploration and extraction, fisheries, and other development projects.



Revenue forgone under the scheme is large. Import duty, VAT, and excise tax revenue foregone under the discretional exemptions are estimated at about VT 200 million in 2004. Among the industries entitled to the exemptions are manufacturing, inter-island shipping, and tourism are the largest beneficiaries.

A review of the exemption scheme is in process. During the 2003 Budget discussions, the Minister of Finance asked the Director of Customs to conduct a review of the exemption scheme to seek a reduction in foregone revenue and to maximize economic benefit. A range of possible reforms, including abolishing or tightening the exemptions and restricting the time frame for granting exemptions, are being considered.

[6] According to Unelco, the retail price of electricity would increase by 4 percent without the current exemption scheme. However, this increase could be offset by a reduction in operational costs.

Public enterprise sector

10. **Most public enterprises are loss-making, in part reflecting the absence of market-based management.** Despite tax exemptions and direct budgetary support (provided under the regulations establishing each entity), the absence of appropriate governance and incentives has led to consistently poor performance.[7] Public entities partially or entirely owned by the government currently have net debts to the government of about 1 percent of GDP, while another 0.5 percent of GDP is transferred to them annually through a direct budget grant.

Table I.2. Public Enterprises in Vanuatu

	Government shareholding End of 2003	Net debt to government End of 2003	Budgetary grant, 2003
	(In percent)	(In mil. VT)	(In mil. VT)
Company			
Air Vanuatu Ltd.	100	26.0	-
Airport Vanuatu Ltd.	100	0	-
Belmol Cattle Project	100	0	-
Ifira Walf and Stevedoring Ltd.	34	82.6	-
Metenesel Estates Ltd.	100	0	-
Northern Island Stevedoring Ltd.	10	0.1	-
Telecom Vanuatu Ltd.	33	-3.1	-
Vanair Ltd.	100	-6.0	-
Vanuatu Abattoirs Ltd.	85	1.3	-
Vanuatu Livestock Development Ltd.	100	13.8	-
Vanuatu Post Ltd.	100	0.3	-
Statutory Body			
Asset Management Unit	100	162.5	-
National Bank of Vanuatu	100	-20.0	-
National Housing Corporation	100	2.0	-
National Tourism Office	100	0	83.6
Vanuatu Broadcasting and TV. Corp.	100	-1.4	45.0
Vanuatu Commodities Marketing Board	100	-0.1	-
Vanuatu Financial Service Commission	100	0	-
Vanuatu Maritime Authority	100	0	40.0
Vanuatu National Provident Fund	100	0	-
Total	-	257.9	168.6

Source: Vanuatu authorities.

Wage Bill Dynamics

11. **Vanuatu's public wage bill is large by regional and international standards** (Table I.3). Despite the higher share of public wages in total government expenditure, the size of public employment is lower than in Fiji and Solomon Islands.

[7] For example, entities may be subject to very large governing boards, whose well compensated members have little expertise in the enterprise's sector or other related private sector experience.

Table I.3. Regional Comparison of Wage and Salary Expenditures, 2003

	Vanuatu	PNG	Samoa	Solomon Islands 1/	Fiji	Asia 2/	Middle income countries 2/
Public wage bill (percent of GDP)	12.1	9.2	8.3	9.7	11.5	5.3	6.0
(percent of total expenditures)	53.0	29.4	24.5	24.5	40.6	20.0	22.1
Public employment 3/ (percent of total employment)	26.9	...	...	27.9	28.2	17.2	...

Sources: National authorities.
1/ Public wage bill includes central government only.
2/ Latest data (1990 to 1999).
3/ Latest data (1998 to 2002).

12. **A gradual reduction in the high wage bill could provide additional resources for capital outlays.** The public wage bill could be reduced to below 10 percent of GDP, the average for other PICs, through reviewing the wage level and freezing new recruitment. In this regard, the current government's plan to increase Parliamentarians salaries by 20 percent would go against the needed policy direction, as the policy could eventually entail future increase in the wage of the other public employees (Table I.4).

Table I.4. Public Employment in Vanuatu, 2003

	Contracts	Education	Public service	Political staff	Police	Total
Total number of employment	360	2,043	1,582	110	557	4,652
		(millions of Vatu; unless otherwise indicated)				
Total spending	138	1,232	1,139	110	302	2,921
(percent of total spending)	4.7	42.2	39.0	3.8	10.3	100.0
Average annual salary	0.38	0.60	0.72	1.00	0.54	0.63

Source: Vanuatu authorities.

Education Sector Expenditure

13. **In Vanuatu, the budget allocation for education in 2000-03 was significantly higher than those for any other countries in the region**[8]. The intensive recruitment of teachers in the early-2000s resulted in a student per teacher ratio of 22:1 in 2003, compared to the international standard of 25:1. At the same time, several indicators suggest that performance in the education sector is not aligned with expenditure. The repetition rate for primary education is high by regional standards, accounting for 9 percent of total enrollment, and the number of dropouts and attritions is also notably high (Table I.5). According to a recent survey, about 50 percent of students drop out after sixth-year grade exams and less than 20 percent at the twelfth-year level pass the Pacific Senior Secondary Certificate (PSSC)[9]. The survey also estimated that about 30 percent of primary school teachers are not qualified to teach[10].

Table I.5. Regional Comparison of Education Sector, Latest for 2000-03

	Vanuatu	PNG	Samoa	Fiji	East Asia and Pacific	Low and middle income countries
Education spending (in percent of total expenditures)	28.8	...	14.4	23.7	...	...
Expenditure per student	16	12	11	14	6	...
Student-teacher ratio, primary	22	36	25	28	22	27
Repetition rate, primary (in percent of total enrollment)	9	...	1	...	2	6

Sources: World Bank, *World Development Indicators* and National authorities.

14. **The structural weakness in the education sector should be addressed promptly.** The government should lay out the direction for the fundamental reform of the education sector by setting clear objectives for education, reforming cost structure in the sector, and improving the quality of teachers. Without reform, Vanuatu's quality of education would

[8] In addition to the budget allocation, schools also collect school fees from parents for operational purposes (an estimated of VT 283 million, or 13.7 percent of the budget allocation for the education sector in primary schools in 2002).

[9] The PSSC qualification, which provides university entrance qualification to students at the twelfth-year level in the PICs, is an interim measure designed to give countries time to develop their own national qualifications.

[10] See *Annual Report on Primary and Secondary School Statistics*, Department of Education, 2003; and *Vanuatu: Education Economics*, UNESCO, 2004.

remain weak, discouraging medium-term growth, notwithstanding the significant budget allocation for the sector.

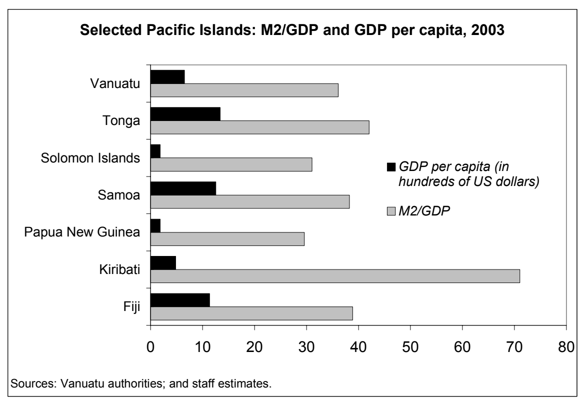
E. Conclusion

15. **A careful evaluation of and improvement in the quality of spending are needed if Vanuatu is to achieve higher growth led by the private sector.** Although the country has succeeded in keeping debt at prudent levels over the past several years, the improvement has come largely from the contraction of capital outlays. Without the necessary infrastructure and an attractive investment climate, however, there is a risk that economic growth would continue to lag population growth over the medium term. A careful revaluation of spending in such areas as discretionary tax exemptions, the high wage bill, and redundancies in education spending, could save resources that could be used for development spending. Setting up a medium-term development plan with technical support from donors would also help provide a longer-term perspective in fiscal management.

II. FINANCIAL SYSTEM[1]

1. **Vanuatu's financial system has experienced significant changes since the 1998 financial crisis [2].** Following nearly two decades of largely passive monetary management under successive fixed peg arrangements, the Reserve Bank of Vanuatu has relied increasingly on indirect monetary policy instruments in response to the 1998 crisis. Meanwhile, foreign banks gradually consolidated their operations, while the two government-owned banks were either closed or restructured, leading to an oligopolistic banking market. In parallel, the offshore banking centre has shrank markedly in recent years, largely in response to increased international scrutiny. Since 2003, the oversight of the onshore and offshore banking sectors has been brought into broad compliance with the Basle Core Principles, and efforts are underway to strengthen supervision of nonbanks. This chapter describes the main structural changes in the financial sector since independence in 1980 and highlights some key features common to most PICs' financial systems (Figure II.1).

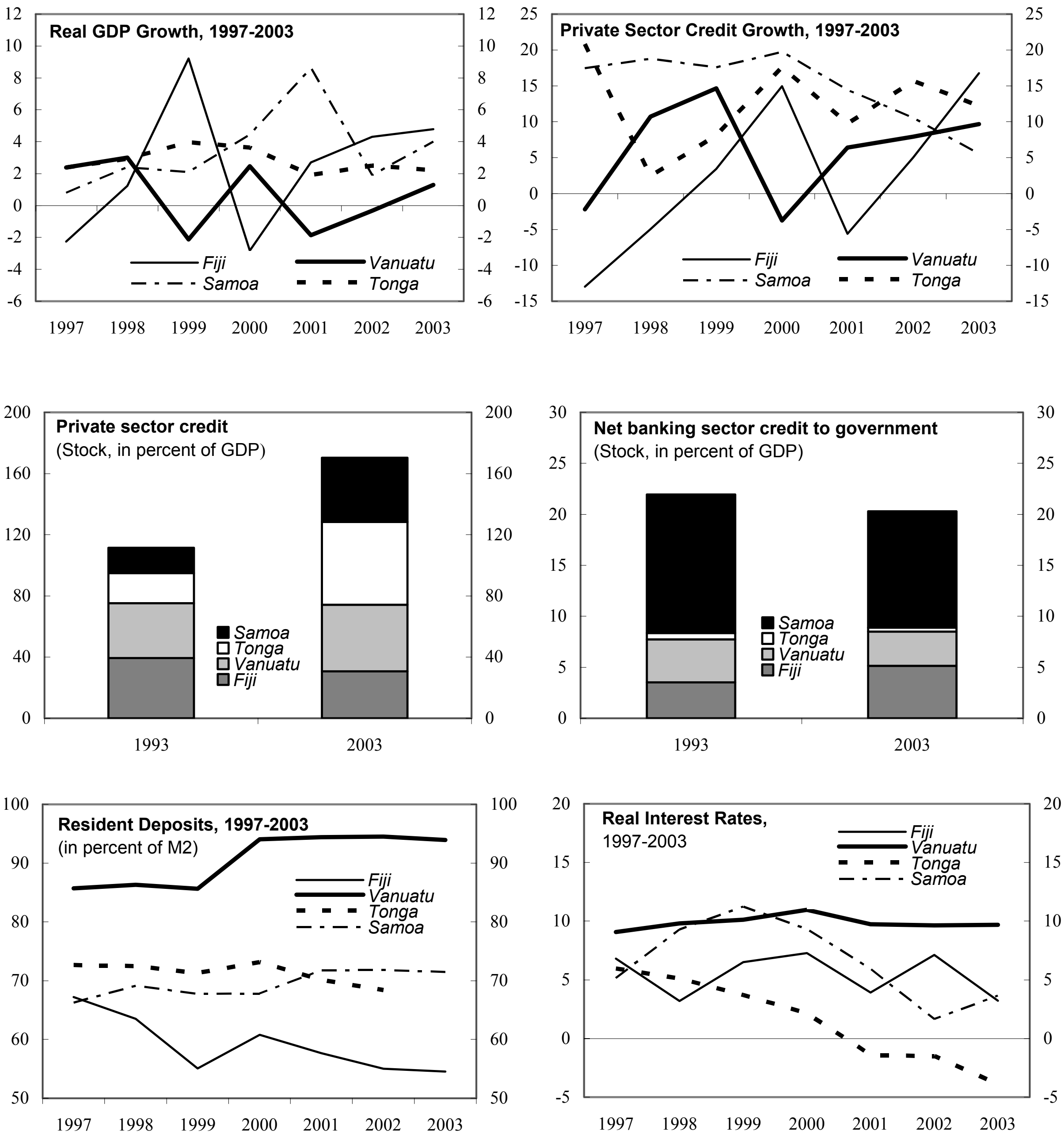
2. **Vanuatu has a dual financial system with onshore and offshore operations closely intertwined.** The onshore financial system comprises a banking system and a number of nonbank financial institutions. The domestic banking system consists of the Reserve Bank of Vanuatu (RBV) and three commercial banks. The domestic nonbank system includes the Vanuatu National Provident Fund (VNPF), and a number of specialized institutions (insurance companies, credit union, microfinance schemes, and money changers). The offshore financial centre (OFC) comprises offshore banks and nonbanks (insurance, trusts, and service providers companies) as well as the shipping registry. The OFC interacts with the onshore banking system mainly through its sizeable deposits and its international reputation has also adversely impacted domestic banks' offshore operations.



[1] Prepared by Philippe Marciniak (APD).

[2] In response to riots in January 1998 sparked by the publication of the Ombudsman's report that raised concerns about the financial soundness of the Vanuatu Provident Fund (VNPF), in March 1998 the government allowed unconditional withdrawals of retirement savings by VNPF members that rapidly depleted its resources.

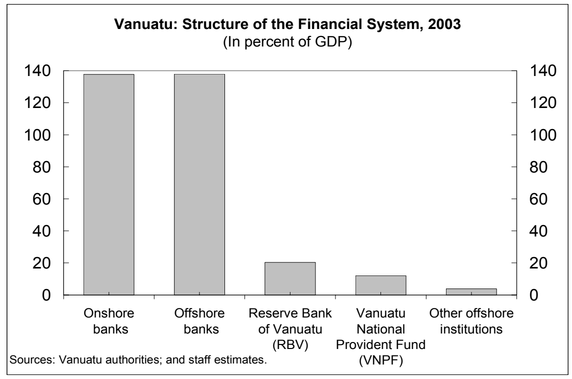
Figure II.1. Pacific Island Countries: Selected Indicators



Source: Vanuatu authorities; and staff estimates.

A. Onshore Financial System

3. **Total assets of the onshore financial system at end-2003 accounted for about 173 percent of Vanuatu's GDP, of which commercial banks represented about 138 percent of GDP.** In comparison, total assets of the offshore sector were equivalent to 135 percent of GDP, with offshore banks accounting for the bulk. Meanwhile, the assets of the Reserve Bank and the VNPF accounted for 20 and 15 percent of GDP, respectively.



Reserve Bank of Vanuatu (RBV)

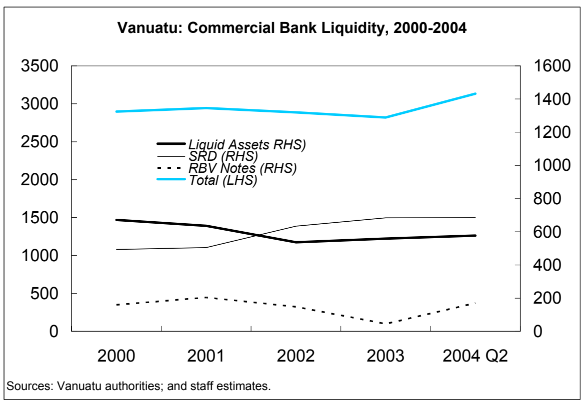
4. **The RBV has played a central role in fostering macroeconomic stability and enhancing the soundness of Vanuatu's financial system.** The RBV's responsibilities are governed by three key laws: the Reserve Bank Act (1980), the Financial Institutions Act (1999), and the International Banking Act (2002). RBV's net income has declined significantly in recent years, largely owing to lower international interest rates and increased outlays. It's supervisory functions were expanded to cover offshore banks and the VNPF in 2003. The RBV's monetary policy stance for the year ahead has been publicly announced in semi-annual statements since 2003. Another review of monetary conditions has been delayed to March 2005, owing to uncertainties over the fiscal policy stance in the wake of the recent change of government. The RBV plans to restructure its operations in 2005, with a view to enhancing foreign exchange management and internal auditing.

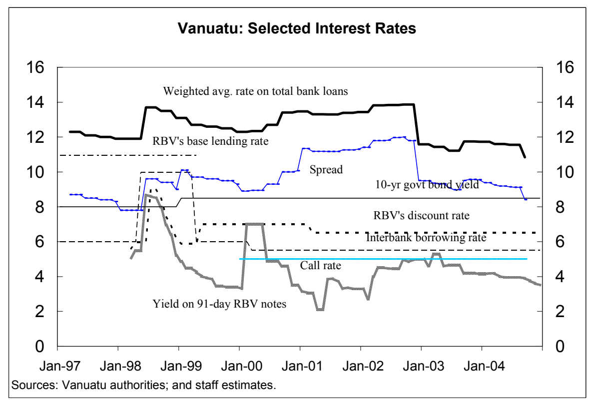
5. **The 1998 financial crisis triggered a revamping of the monetary policy framework** (Box II.1).[3] The crisis resulted in a surge in liquidity, and devaluation expectations fueled capital outflows and depleted international reserves from the equivalent of six months of imports to less than three months by end-1998. In response, the RBV developed new instruments aimed at absorbing the excess liquidity and tightened foreign exchange controls. These measures ultimately restored financial stability and confidence in the Vatu, as evidenced by the subsequent recovery in gross international reserves to the equivalent to 5.1 months of imports at end-1999.

6. **New indirect monetary policy instruments aimed at strengthening liquidity management were established in the aftermath of the financial crisis.** Prior to 1998, for monetary management purposes the RBV relied primarily on statutory reserve deposits (SRD) requirement and a lender-of-last resort facility (Advance Facility) and for a brief period on informal guidelines on administered lending. The Advance Facility provided short-term liquidity, mostly to nonbanks, at a dissuasive interest rate (minimum lending rate

[3] See also *Monetary Policy Implementation at Different Stages of Market Development,* Chapter XI on Vanuatu; IMF.

(MLR)). Borrowers pledged government bonds under the Advance Facility. This Facility was mostly used by the government and the Vanuatu Commodities Marketing Board (VCMB) as banks had a favorable liquidity position at that time. The Advance Facility, however, became redundant in late 1998 when the Rediscount Facility and the Repurchase Agreement were created, and was phased out in early 1999. The interest rate applied to borrowing under these facilities is the rediscount rate. The Statutory Reserve Deposit, introduced in early 1988 primarily for prudential reasons, was the only effective monetary policy instrument for almost a decade and has remained a crucial tool for the RBV. The SRD, which was briefly replaced by a Prescribed Reserve Asset (PRA) requirement during 1998, was subsequently upgraded to include half of residents' demand deposits in foreign currency and to provide for a monthly averaging maintenance instead of daily balance maintenance as previously. Open market operations, also initiated in 1998, have gradually become the main instrument for liquidity management purposes**.** RBV notes are also used as collateral for secured lending; there is no secondary market for these notes.





7. **Vanuatu has always had a fixed exchange rate arrangement.** Prior to independence in 1980, Vanuatu's currency, the New Hebrides franc , was pegged to the French franc. This arrangement led to a substantial appreciation against the Australian dollar, the currency of Vanuatu's main trading partner, and moderate inflation. The subsequent weakening of the French franc in late 1981 resulted in a marked depreciation of the Vatu against the Australian dollar and a surge in inflation. Against this background, the RBV linked the Vatu to the SDR in September 1981, owing to its transparency and its operational simplicity. In February 1988, however, the Vatu was linked to a basket of currencies, reflecting the authorities' concern about speculation risks against the Vatu.

8. **Vanuatu's exchange rate arrangement has helped cushion external shocks.** The RBV's exchange rate policy is aimed at maintaining a stable exchange rate for the Vatu, in accordance with its objectives of maintaining price stability and an adequate level of official reserves. The exchange rate of the vatu is determined on the basis of an undisclosed transaction-weighted (trade and tourism receipts) basket of currencies of Vanuatu's major trading partners. The RBV quotes daily buying and selling rates of the vatu against the currencies in the basket with margins ranging from 0.25 percent and 0.3 percent around the middle rate. A 20 percent devaluation announced in the wake of the 1998 financial crisis was revoked a few days later, largely because of inflation-wage spiral concerns. Instead, the RBV raised sharply the base-lending rate to signal its intention to strongly defend the exchange rate of the Vatu. In recent years, the RBV has not intervened in the foreign market to defend the exchange rate.

Box II.1. Vanuatu: Monetary Policy Framework

Monetary Policy Objectives: The goal of monetary management, as stated in the 1980 RBV Act, is to promote "monetary stability," i.e., to maintain low inflation and an adequate level of international reserves, while supporting economic growth, hence employment and poverty reduction. These objectives are to be achieved through sound monetary and exchange rate policies. The Governor's *Monetary Policy Statement* for 2004 calls for keeping inflation below 4 percent and maintaining at least 4 months of international reserves, with assumed real GDP growth of 3.0 percent.

Policy Variable: Reserve Money, defined as the sum of currency issue and bank's deposits, is the key monetary policy variable. Bank's deposits include compulsory deposits in connection with SRD requirements and excess reserves partly used by banks to meet daily clearing needs and grant private sector credit. Since reserve money is directly linked to broad money supply through a multiplier effect, the RBV is able to control broader monetary aggregates to a large extent. Vanuatu's money multiplier has remained broadly stable at about 8 since 1999.

Intermediate Variables: The RBV monitors closely a set of key monetary aggregates (e.g., various levels of money supply, private sector credit, and international reserves) for assessing the efficiency of its policies. However, broadly defined money supply (M4), which includes time and savings deposits in foreign currency in addition to other types of deposits, is viewed by the RBV as most suitable for monetary policy purposes. M4 is less affected by substitutions between deposits than narrower liquidity aggregates and encompasses OFC's deposits which account for about thirds of time and savings deposits.

Monetary Instruments: The RBV controls the money supply by monitoring banks' liquidity through the following indirect instruments.

- ***Statutory Reserve Deposit (SRD):*** primarily a prudential instrument. Under the SRD commercial banks are required to maintain 10 percent of average Vatu deposits and 50 percent of foreign currency demand deposits for the two months preceding the calculation date.

- ***Open Market Operations:*** Central for liquidity management purposes. The RBV regularly buys and sell its own notes in open market operations to regulate banks' liquidity. The notes have maturities of 14 days, 28 days, 63 days, and 91 days.

- ***Rediscount Window and Repurchasing Agreement Facilities:*** Primarily lender-of-last resort facilities. Banks experiencing liquidity shortages can access RBV funds through these facilities. Banks holdings of RBV Notes and government bonds are used as collateral. These facilities have rarely been used since their inception in 1998 because of a generally favorable liquidity situation. The rediscount rate is the RBV's benchmark rate.

Exchange Rate Policy: aimed at maintaining a stable exchange rate. Since early 1998, the Vatu has been pegged to an undisclosed transaction weighted (trade and tourism receipts) basket of currencies from Vanuatu's major trading partners. Foreign exchange guidelines are in place to safeguard official reserves and the exchange rate peg.

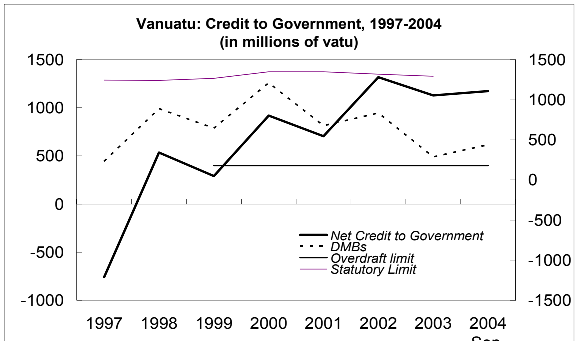
9. **The RBV aims at maintaining official reserves equivalent to at least four months of imports to support the exchange rate peg.** Prior to 2003, the predominant source of export receipts was the proceeds of exports of copra, kava, and cocoa. This source of foreign exchange receipts, however, dried up when the Vanuatu Commodities Marketing Board (VCMB) was restructured and abandoned its marketing role to concentrate on the regulation of copra and cocoa production and exports. As a result, almost all foreign exchange transactions were shifted to the commercial banks and currently the RBV mostly buys and sells foreign currency from/to the government and has indicated to the banks that they trade among themselves prior to coming to the RBV as a last resort, which has only partly funded foreign exchange requests from the commercial banks. The investment of official reserves (mostly US dollars and Australian dollars) in high quality government bonds is outsourced to a limited number of overseas fund managers. Under the 1998 guidelines, the RBV would sell foreign exchange to the banks for current transactions only, but the banks are required to fund capital transactions from their own resources. The guidelines were removed in October 1999, as monetary and financial stability strengthened and the external position improved. The RBV, however, reintroduced the guidelines in June 2001, in response to a marked decline in official reserves, setting minimal amounts of $1.0 million per client for foreign exchange sales to the banks. The minimal amount was lowered to $250,000 in September 2001, as official reserves built up again and has remained unchanged since then. The RBV is currently in the process of reviewing its investment guidelines to strengthen risk policies.

10. **Monetary and fiscal policy coordination has been close.** The RBV Act specifies that the RBV and the Ministry of Finance (MoF) share monetary responsibilities and calls for a close working relationship between them. The Act, however, limits the RBV's independence by giving the Minister of Finance the power to issue directives to the RBV after consulting with the Council of Ministers. In 1998, for example, the Finance Minister reversed RBV's decision to devalue the Vatu. In addition, the government owns the capital stock of the RBV and a representative of the MoF is a member of the Board of the RBV.[4] In practice, however, the RBV has a high degree of autonomy in the formulation and implementation of monetary policy. The RBV fulfils the traditional central bank mandate toward the government. i.e., it acts as banker and fiscal agent for the government. As the government's banker, the RBV carries out payments transactions on behalf of the government, is the depository to government funds, and grants loans and advances to the government. As a fiscal agent, the RBV acts on behalf of the government for the issuance of government bonds. The RBV also has broad advisory responsibilities in the context of the Macroeconomic Policy Committee (MPC) and the Cash Flow Committee (CFC), and

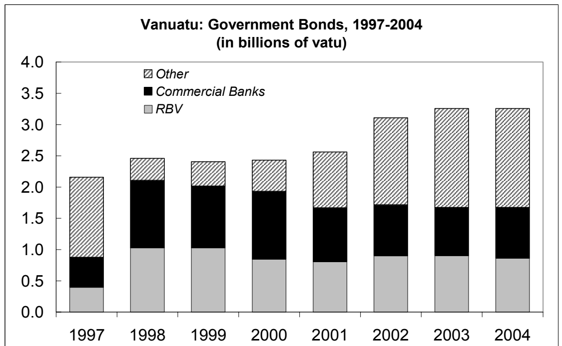
[4] The Board of Directors of the RBV comprises four members namely, the Governor, a representative of the Ministry of Finance, and two members from the private sector appointed by the Minister of Finance and Economic Management. The Governor, who is Chairman of the Board, is appointed by the Prime Minister on recommendations of the Minister of Finance and Economic Management for a period of up to 5 years and is eligible for reappointment.

maintains an informal working relationship with the MoF during regular meetings between representatives of the two institutions.

11. **Despite a tight cash situation, the government's borrowing from the RBV has been contained within the statutory limits**. Cash flow constraints in recent years have led to increased borrowing from the banking system and nonbanks, rollover of government bonds, and decline in government deposits, while external borrowing has been minimal since 2002. Under the RBV Act, government's borrowing from the RBV (overdraft and government securities) is limited to 20 percent of the average annual ordinary government revenue for the three financial years immediately preceding the year in which financing is granted. However, the Minister of Finance and Economic Management can issue a directive to the RBV to temporarily increase the statutory limit to 30 percent; the 20 percent limit, however, has never been breached. Prior to 2003 the RBV overdraft limit ranged from Vt170-Vt500 million and has been limited at Vt400 million thereafter. The government has continuously resorted to the RBV overdraft and rolled over and issued new government bonds in 2003, while remaining within the statutory limits on domestic borrowing. Gross credit to the government has been broadly stable in relation to GDP since 1998 (about 7 percent of GDP). Meanwhile, government deposits have been eroded to about 3 percent of GDP in 2002–03 compared with 6 percent of GDP in the late 1990s. In addition, government bond holdings rose to about 10 percent of GDP in recent years after several years of broad stability (about 7 percent of GDP). The banking system has gradually reduced its share in government bond holdings to 5 percent of GDP at end-2003 while nonbanks' share rose to about 5 percent of GDP compared with 1 percent of GDP in the late 1990s.



Sources: Vanuatu authorities; and staff estimates.



Sources: Vanuatu authorities; and staff estimates.

12. **RBV's net income has significantly deteriorated in recent years.** The RBV's profits mainly consist of the proceeds of investments of official reserves. The RBV Act stipulates that 10 percent of the annual net profit should be allocated to the RBV's General Reserve with the remainder paid to the government. Net profits dropped to Vt55 million in 2002 compared with Vt150 million in 2001, as official reserves weakened and foreign interest rates fell markedly. Despite a slight recovery of official reserves and increased income from government bonds and secured lending, they reached an all-time low in 2003 (Vt36.6 million), largely owing to further decline in foreign interest rates. Meanwhile, wage outlays rose significantly in connection with the RBV's increased supervisory responsibilities and new wage benefits granted to staff members with more than ten years seniority.

13. **The supervisory framework and oversight of Vanuatu's financial system have been strengthened markedly in recent years, in both the onshore and offshore financial sectors.** Prior to 1999, supervisory responsibilities over Vanuatu's financial institutions were shared between the RBV and the Vanuatu Financial Services Commission (VFSC). However, in response to mounting imbalances in the banking sector, the RBV received exclusive supervisory responsibility for domestic banks under the 1999 Financial Institutions Act and the offshore banks under the 2002 International Banking Act. Meanwhile, the VFSC became solely responsible for offshore nonbank institutions. Prior to these arrangements the lack of adequate legislation and VFSC's limited capacity had hampered effective supervision of offshore banks. The IMF Module II Assessment Report (May 2002) revealed that: (i) the supervisory framework for Vanuatu's domestic banking sector was in compliance with most Basel Core Principles (BCP's); and (ii) the offshore sector and domestic nonbank financial institutions were subject to low standards of supervision under outdated legislation. (Box. II.2).

Commercial Banks

14. **The number of banks has almost halved since independence, leading to an oligopolistic market, in line with other PICs.** The banking sector has gradually concentrated its operations through mergers, acquisitions, and liquidations, with only three banks[5] now operating in Vanuatu compared with five in 1980. Among the three commercial banks, two are Australian-owned and one is government-owned, with all providing similar retail and commercial services. ANZ and Westpac operate as a subsidiary and a branch, respectively. ANZ has the largest market share, following the purchase of the Bank of Hawaii's local branch in 2001. Both banks operate only in Port Vila and Santo, the two main urban centers, and they maintain close business relations with OFC operators. Their financial soundness is safeguarded by their respective parent banks and dual supervision, locally and in Australia. The National Bank of Vanuatu (NBV) is government-owned and maintains some 19 branches throughout Vanuatu's islands. NBV has been gradually recovering from a deep restructuring launched in 1998 under the Comprehensive Reform Program (CRP) and has again posted profits in 2003.

15. **The size of the consolidated balance sheet of the commercial banks has increased markedly in recent years, despite mixed economic performance.** Total domestic banking assets gradually rose to the equivalent of 138 percent of GDP in 2003 from 118 percent in 2000. About 37 percent of banks' assets are denominated in Vatu with the remainder being foreign currency deposits offshore, mainly with parent banks. Deposits account for the bulk of banks' total liabilities, of which about 65 percent are foreign currency deposits. There are no restrictions on foreign currency deposits by residents.

16. **Banking conditions in Vanuatu are similar to those in other PICs.** They are characterized by high interest spreads and limited bank lending to the rural sector. In the last

[5] Excluding the foreign-owned European Bank Limited (EBL) licensed for both domestic and offshore operations. EBL, however, has never offered the full range of domestic banking services and has operated exclusively offshore with high net worth nonresident clients.

Box II.2. Vanuatu: Progress in Upgrading Financial Supervision

The IMF Module II Assessment Report[1] revealed that: (i) the supervisory framework for Vanuatu's domestic banking sector was in compliance with most Basel Core Principles (BCP's); and (ii) the offshore sector and domestic nonbank financial institutions were subject to low standards of supervision under outdated legislation. The authorities have addressed most of the recommendations of the report regarding onshore and offshore banking and are in the process of revamping the legal and supervisory framework for nonbank financial institutions (e.g. insurance companies, trusts..).

Supervision of the Onshore Financial System. The following guidelines were adopted:

- In July 2002, the RBV issued a prudential guideline on "customer due diligence" whereby banks must have in place know-your-customer (KYC) policies.
- In September 2002, the RBV issued a prudential guideline on "fit and proper" to ensure that bank owners and managers are fully suited for their positions.
- In November 2002, the 1999 Financial Institutions Act was amended to allow the RBV to set prudential ratios appropriate to each individual bank and to strengthen external audit requirements.
- In April 2004, the RBV issued new guidelines on bank's liquidity policy.

In addition, the RBV was granted supervisory power over the Vanuatu National Provident Fund (VNPF) in December 2003 and the first on-site inspection was completed in mid-2004.

Supervision of the Offshore Financial Centre (OFC) A cost-benefit analysis sponsored by the Pacific Forum Secretariat aimed at assessing the contribution of the OFC to Vanuatu's economy and setting the framework for the government's OFC policy was conducted in late 2004.

Offshore Bank. The main provisions under the 2002 International Banking Act are as follows:

- The RBV has taken over the oversight of offshore banks from the VFSC. As a result, the supervision standards for domestic and offshore banks have been aligned with domestic bank supervision standards (i.e., prudential guidelines, monitoring through on-site inspections and off-site analysis, and data and audit requirements). The VFSC is now the regulator of the nonbank offshore sector.
- Offshore banks are required to maintain a physical presence in Vanuatu. (The banks must have an office and records in Vanuatu, employ staff locally and have management responsible for day-to-day operations. This requirement is crucial for ensuring effective supervision and preventing anti-money laundering activities and financing of terrorism through "shell banks."
- The Act raised the capital requirement to $0.5 million, from $150,000 previously, and compared with Vatu 200 million ($1.85 million) for domestic banks.

Offshore Nonbanks.

- A new draft Insurance Law was prepared with IMF assistance and is slated for approval by Parliament in 2005.
- Drafts of the Protected Companies Bill, Mutual Funds Bill, Unit Trust Bill, and Offshore Limited Partnership Bill have been completed. Work is underway on revised trust law and trust service provider legislation.

AML/CFT. The RBV has extended its on-site examination inspections program to include assessments of the onshore and offshore banks' anti-money laundering monitoring and reporting.

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[1] Publication of Offshore Financial Sector Assessment, IMF Country Reports No. 03/254 and 03/253.

three years, the interest spread range (9-12 percent) narrowed slightly, owing to both a decline in lending rates and an increase in deposit rates. Vanuatu's high spreads primarily reflect: (i) high risk factors (country and customer risks); (ii) requirements on asset returns from parent banks; (iii) high overhead costs (expatriate labor and telecommunications); (iv) the small size of the banking market and lack of competition; and (v) the lack of adequate collateral due to traditional land tenure. In addition, banks feel that the RBV's high statutory requirements (i.e., LAR, SRD, and capital adequacy) contribute to high spreads. Interest rates have been market-determined since independence, with the exception of a two-year period in the early 1980s when informal guidelines on lending costs and sectoral allocation were implemented. Lending rates have declined slightly since late 2002, as the excess liquidity enabled banks to ease interest rates. Meanwhile, deposit rates have been maintained below inflation rates over the last four years, although they have risen slightly since mid-2002, as banks stepped up deposit mobilization and the VNPF sought to increase the rate of return on its deposits. The bulk of private sector lending is denominated in Vatu. Personal lending (housing and school fee loans) is the leading sector (40 percent of total lending) followed by the construction sector (18 percent). In contrast, lending to the agriculture sector is minimal (2 percent). The interbank market is very limited.

17. **Despite these constraints, Vanuatu's domestic banking sector has broadly maintained its profitability in recent years, despite increased non-performing loans and a high level of excess liquidity** (Table II. 1).

Table II.1. Vanuatu: Financial Soundness Indicators of Commercial Banks, 1999–2004
(In percent)

	1999	2000	2001	2002	2003	2004
Capital adequacy						
Regulatory capital to risk-weighted assets	21.0	21.6	32.2	32.8	39.8	33.8
Regulatory tier 1 capital to risk-weighted assets	20.0	19.5	30.9	31.6	38.7	34.9
Asset quality						
Nonperforming loans to capital 1/	45.5	10.1	8.1	20.8	32.2	43.2
Nonperforming loans to total gross loans 2/	12.7	4.5	3.8	3.9	8.4	18.5
Vatu loans to total loans	92.6	91.9	91.4	91.0	90.6	90.4
Earnings and profitability						
Return on assets	0.5	2.0	0.7	1.1	0.8	0.9
Return on equity	4.0	4.5	4.4	6.0	7.7	7.2
Interest margin to gross income	76.1	76.8	73.0	70.8	61.9	62.6
Non-interest expenses to gross income	35.3	29.4	37.1	34.1	36.2	356
Liquidity						
Liquid assets to total assets	20.6	26.5	27.9	21.9	18.1	23.4

Source: Reserve Bank of Vanuatu (RBV).

1/ Nonperforming loans net of provisions.
2/ As of September 2004.

- **Net operating income** rose slightly in 2004 to September, despite a slight decline in gross operating income and increase in operating expenses. This was largely offset by a sizeable reduction in non-operating costs in relation to a drop in provisioning. The drop in earnings stemmed from non-interest income. Interest income remains the main source of income (61 percent) for domestic banks, despite its downward trend since 2001.

- **Bank profitability** as measured by the return on assets is low, but has also been broadly maintained at about 1 percent in recent years.

- **Asset quality** as measured by NPLs, has deteriorated since 2002, largely due to problem loans in one foreign bank and as a result of downgrading of large exposures. Workout strategies, however, are under implementation to reduce the level of impaired assets.

- **Capital adequacy**, as measured by risk-weighted assets, has been maintained above 30 percent since 2000, well-above the 8 percent prudential requirement. All the banks remain adequately capitalized. Tier 1 capital accounts for nearly 98 percent of total capital, and its growth is largely driven by retained earnings.

- **Liquidity requirements** were largely met during 1999-2004, exceeding the liquidity asset ratio (LAR) of 15 percent (1999-2003), reduced to 12 percent (January 2004).

Vanuatu National Provident Fund (VNPF)

18. **The Vanuatu National Provident Fund (VNPF) is a crucial safety net.** For most households, the accumulated contributions with the VNPF are the primary source of savings and income upon retirement. Monthly mandatory contributions are raised from about 2,000 employers and 17,000 employees. The total contribution rate was reduced to 8 percent of gross salary as of January 2004, from 12 percent during 2001-2003. The VNPF provides benefits to about 41,000 members and guarantees a minimal annual return on contributions of 2 percent. Members are eligible to withdraw their accumulated contributions from the VNPF at age 55, and earlier for exceptional reasons (e.g., permanent or mental incapacity). The provision of housing loans was discontinued as a result of VNPF's restructuring in 1999.

19. **The VNPF became insolvent in early 1998 after large payouts.** In total, Vt 3.2 billion out of Vt3.8 billion assets at end-1997 was withdrawn during 1998. The subsequent restructuring involved government loans (Vt895 million) to meet the surge in withdrawals and transfer of nonperforming assets (Vt640 million) to the AMU and to cover the shortfall in payments of housing loans originally transferred to the NBV (Vt100 million). In addition, the government provided grants (Vt225 million) in 2001 to clear historical losses.

20. **The VNPF has gradually recovered from its 1998 financial crisis and has achieved a reasonably robust performance in recent years.** Total assets rose from Vt202 million at end-1998 to Vt4.9 billion at end-2003 (11 percent of total commercial bank assets and 15 percent of GDP), allowing the VNPF to be a key player in Vanuatu's financial market. Members' contributions (Vt4.9 billion at end-2003 compared with Vt689 million at end-1998) account for the bulk of VNPF's liabilities, with the balance being General

Reserves. The VNPF has achieved positive operating gains (before grants) since 2001, after 14 years in deficit. The continued build up of member's funds since 1999 has been achieved through increased contribution rates, improved employer compliance, government grants, and enhanced management. Domestic investments which accounted for about 83 percent of total assets at end-2003, are in the form of term deposits (34 percent), government bonds (32 percent), loans to government and statutory entities (8 percent) with fixed assets the remainder (13 percent). The VNPF Act was amended in December 2003 to limit investment offshore to 15 percent of total assets compared with 50 percent during 2001–03 and 20 percent prior to 2001. This was in response to unrealized losses on US Treasury bonds (Vt100 million in 2003 and Vt45 million in 2002) as a result of the appreciation of the Vatu against the US dollar. The RBV was granted supervisory oversight for the VNPF in December 2003. An onsite-inspection conducted in mid-2004 assessed that it was broadly sound. The RBV is also assisting the VNPF in strengthening its investment guidelines.

Development Financing

21. **The lack of affordable credit for the bulk of the population hampers Vanuatu's development, as in most other PICs.** The Development Bank of Vanuatu (DBV) was closed in 1998. Since then, the reestablishment of a credit facility aimed at supporting the rural development has been under consideration, but donor support has not been forthcoming. The government initiated the preparation of a broad strategy for rural sector financing, with the options of reopening the DBV or starting a new Agriculture Bank by mid-2005. Such prospects are a matter of concern, in view of the failure of such institutions in the region.

22. **Microfinance has emerged as a more promising avenue for small-scale project financing.** Microfinance in Vanuatu is currently provided under: (i) government-sponsored small-scale credit schemes; (ii) Vanwods Microfinance, a UNDP-supported operation; (iii) NBV's micro-finance window with AsDB-support; and (iv) a number of private organizations (NGOs). The Ni-Vanuatu Business Development Fund and the Cooperative Development Fund (CDF) are supervised by the Ministry of Trade, Commerce and Industry. The CDF is fully financed through a grant from the People's Republic of China. NBV's microfinance project launched in 2003 with AsDB assistance provides loans up to Vt1 million. In the absence of adequate collateral, the NBV relies on community chiefs' certification of the borrowers and for loan recovery. The two commercial banks have expressed interest in participating in the NBV microfinance project.

Other Domestic Financial Institutions

The Asset Management Unit (AMU)

23. **The AMU's loan recovery has been slower than expected.** The AMU is a public agency established in late 1998 to collect nonperforming loans transferred from the defunct Development Bank of Vanuatu (DBV), the National Bank of Vanuatu (NBV), and the VNPF as part of the financial reform under the 1998 Comprehensive Reform Program (CRP). The AMU is supervised by the Ministry of Finance and directly funded through loan collections. The AMU has recovered about Vt600 million since its inception (out of an initial bad loan portfolio of Vt3 billion), of which Vt340 million have been paid out to the government (Vt176 million), the NBV (Vt120 million), and the European Investment Bank (Vt44

million). About Vt220 million is expected to be recovered within the next few years. As part of a performance arrangement, the AMU owes Vt288 million to the government related to the VNPF housing loans, of which Vt121 million has been redeemed from AMU's surplus funds. The recovery process has been slowed by delays in getting court orders. As a result, the AMU, which was originally intended to complete loan recovery in 2001, is now expected to operate for at least another three years.

Other domestic nonbank financial institutions

24. **The oversight of other domestic nonbank financial institutions needs further upgrading.** Such institutions include mainly a number of credit unions, small savings institutions and cooperatives that offer deposit and loan facilities, insurance companies, and money changers. The insurance companies and credit unions are supervised by the Vanuatu Financial Services Commission (VFSC), while the other institutions operate under generally outdated Acts that specify their scope of activity. Money changers, are competing with commercial banks in offering bureau de change services, but are not subject to any licensing regime or oversight by a supervisory agency. Accordingly, the authorities are considering introducing a licensing regime to ensure that all money changers are fit and proper and to improve communication between their licensing agencies and the Financial Intelligence Unit (FIU) to prevent anti-money laundering activities.

B. Offshore Financial Centre (OFC)

25. **Vanuatu's offshore market has experienced substantial changes since its inception.** Vanuatu's OFC was established under the 1970 Banking Act during the Anglo-French Condominium, with a view to diversifying the productive base largely dominated at that time by a declining agricultural sector. The core legislation enacted remained broadly unchanged after independence in 1980, but was revamped under the 2002 International Banking Act, largely in response to increased international scrutiny in the aftermath of the September 11, 2001 events.

26. **The offshore industry has been streamlined in recent years, with a marked decline in the size of the offshore banking sector.** The OFC comprises bank and nonbank institutions, with the latter including insurance companies, trusts, and company service providers. The OFC also includes the shipping registry. Since the inception of the OFC, offshore banks are precluded from taking deposits from residents. After peaking to over 100 in the early 1990's, the number of offshore banks was halved gradually during the same decade, reflecting the authorities' efforts to improve the reputation of Vanuatu's OFC, increased foreign competition, an outdated legal framework, and political instability. The adoption of the 2002 International Banking Act resulted in further streamlining of offshore banking activity. During 2003, only 11 offshore banks out of 34 operating at end-2002 re-applied for new licenses; the RBV granted licenses to nine banks. During 2004, two more offshore banks had their license revoked for non-compliance with the International Banking Act. Meanwhile, the number of international companies has soared since the enactment of the International Companies Act in 1993. As a result, the incorporation and administration of international companies accounts for about 80 percent of the OFC's income, with Australia the primary market. The market for offshore insurance companies (about 3 percent of the

OFC’s total income) has increased modestly since the mid-1990s, and the provision of trust services has declined significantly.

27. **The continuous decline in total assets and income of offshore banks largely mirrors the reduction in the number of banks.** At end-September 2004, total assets of offshore banks were $278 million compared with US$394 million for domestic banks, down from $395 million at end-2003 and $ 2.3 billion at end-2002, immediately prior to the implementation of the International Banking Act. Loans and advances account for about two thirds of the sector’s total assets while deposits represent about 85 percent of total liabilities. Meanwhile, earnings on total offshore bank assets have been halved since end-2002, to $1.2 billion at end-September 2004.

28. **Registrations with Vanuatu’s Shipping Registry Office have risen gradually but revenue has declined.** The Vanuatu Maritime Services (VMS) operates the Vanuatu Shipping Registry Office in New York. The shipping registration fees are shared among the VMS, the Vanuatu Maritime Authority (VMA), and a maritime trust fund (MIPF). Shipping fees have declined in recent years despite the increase in the number of ships registered, largely reflecting the appreciation of the Vatu against the US dollar.

29. **The offshore sector accounts for about 4 percent of GDP and contributes about 3 percent of direct government revenue, mostly through international company registration fees (1.0–1.5 percent of government revenue) and shipping registration fees (0.9–1.5 percent).** The finance industry as a whole employs around 320 in-Vanuatu, of whom 300 work in the domestic banks. There is no information available on the downstream effects of the offshore sector. Nevertheless, sizeable OFC’s deposits in the domestic banks (OFCs account for about two thirds of time and savings deposits) contribute to enhancing their profitability.

30. **The shortcomings of the insurance legislation are being addressed.** The offshore as well as domestic insurance companies provide both life and nonlife insurance coverage and rely heavily on overseas reinsurance. In response to the IMF Module 2 Assessment Report, a new draft Insurance Bill covering domestic and offshore insurance has been recently finalized with IMF assistance and is expected to be adopted by Parliament in 2005. The Bill aims at strengthening compliance with international insurance standards (e.g., capital requirements, solvency, information disclosure) and AML/CFT requirements as defined by the FATF.

31. **A modern regulatory framework for trust and company service providers is being developed.** Trusts (i.e., trustee, executor, or administrator) are incorporated as local businesses under the outdated Trust Companies Act, servicing both resident and nonresident clients. The provision of trust services is minimal as the use of trusts is not traditional among a predominantly Southeast Asian client base; there are only 10 entities licensed under the Trust Companies Act. Company service providers (i.e., accountants, lawyers, consultants) are unregulated, servicing approximately 4,342 international companies and 172 exempt companies, and an unknown number of foreign-incorporated offshore companies. The drafting of a Trust Companies Bill and Companies Service Providers Bill began in 2003; the two bills are expected to be combined into a Fiduciary Bill. In addition, a number of bills

aimed at offering new offshore services (e.g., mutual funds, offshore limited partnership) are under preparation.

C. Vanuatu's Response to AML/CFT and OECD Tax Requirements

32. **Despite the important progress made, the AML/CFT framework still needs strengthening**. In response to several external assessments[6] of its financial sector in recent years and to requirements under the 2001 US Patriot Act, the government has gradually enhanced its legal framework on money laundering and the financing of terrorism (AML/CFT). The authorities endorsed the FATF 40 recommendations in December 2003. However, the adoption of the amended Financial Transactions Reporting Act (FTRA), the key legislation in this area, has been delayed, owing to political instability and the offshore industry's concerns about the proposed information sharing provisions. The amendments to the FTRA aim at improving suspicious transaction reporting, including by non-financial businesses, and establishing arrangements for internal and international cooperation. The FIU, the agency created under the 2002 FTRA Act and attached to the State Law Office has prime responsibility for AML/CFT oversight. The FIU, however, has so far been unable to fully operate, owing to inadequate staffing and under-funding. Nevertheless, since 2003 the FIU has participated jointly with the RBV in on-site inspections of domestic and offshore banks to enforce compliance with AML/CFT requirements and has finalized a comprehensive action plan to strengthen its operations. A Counter Terrorism Act in accordance with international conventions is under preparation. New legal and supervisory arrangements are needed with regard to nonbank money changers to fill the existing gap in the AML/CFT framework.

33. **Steps have been taken to address the OECD's concerns on harmful tax practices.** The OECD designated Vanuatu as an uncooperative tax haven in mid-2002, but removed the country from its list in mid-2003 after the government confirmed its commitment to improve the transparency of the tax and regulatory systems and to establish an effective exchange of information for tax matters with OECD countries by end-2005. The legal framework under preparation for offshore nonbank entities and the proposed amendments to the FTRA are expected to provide adequate provisions for meeting OECD's requirements in the near future.

D. Conclusion

34. **Despite its recovery from the 1998 financial crisis, the financial system needs further reforms to promote private sector-led development in the medium term, especially in the following areas:**

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[6] Assessments of Vanuatu's OFC were conducted by: the Financial Stability Forum (2000); jointly by the Asia Pacific Group on Money Laundering (APG) and the Offshore Group of Banking Supervisors (GBS) (2000); the Financial Action Task Force (FATF) (2000; the IMF (2002); and the Pacific Forum (2004).

- The AML/CFT's legal framework and its enforcement still needs further strengthening. This would require: (i) adopting the amended Financial Transactions Reporting Act (FTRA) and the Insurance Act; (ii) finalizing key legislation on nonbank offshore activities (e.g., trusts, Fiduciary Bill); (iii) strengthening the capabilities of the Vanuatu Financial Services Commission (VFSC) and the Financial Intelligence Unit (FIU); and (iv) establishing VFSC oversight on money changers.

- The recent cost-benefit analysis of the OFC will be instrumental in framing future reforms in this area, with a view to strengthening Vanuatu's financial reputation.

- Sustained economic development and poverty reduction critically hinge upon improving access to affordable financing for the bulk of the population, which are mostly involved in rural sector activities. However, plans to create a government-owned rural bank and to allow private lending by the Vanuatu Provident Fund should be resisted, in view of past experience. Instead, microfinance schemes supported by banks, donors, and NGOs could offer sound alternatives.

- Continued prudent government borrowing policy is crucial for ensuring adequate liquidity management To that end, the current restriction on RBV financing or the government sector should be firmly maintained.

- Structural reforms aimed at improving the cost of doing business in Vanuatu are also urgently needed to strengthen private savings, especially with regard to: (i) land reform; (ii) pricing of utilities and telecommunications; and (iii) public enterprises.

Table 1. Vanuatu: Gross Domestic Product by Type of Economic Activity
in Constant 1983 Prices, 1999–2003

	1999	2000	2001	2002	2003 Est.
	(In millions of vatu; unless otherwise indicated)				
Agriculture, fishing, and forestry	2,877	3,089	2,994	2,894	3,073
(annual percentage change)	-12.2	7.4	-3.1	-3.3	6.2
Copra	605	642	599	520	582
Cattle	240	240	234	242	271
Cocoa	75	133	66	72	111
Kava	148	222	239	191	204
Other commercial agriculture	72	80	88	76	71
Subsistence agriculture	1,525	1,560	1,595	1,630	1,665
Forestry and logging	142	139	99	87	91
Firewood	71	72	74	76	78
Industry	1,624	1,658	1,581	1,489	1,485
(annual percentage change)	10.6	2.1	-4.7	-5.8	-0.3
Manufacturing	771	746	655	569	573
Electricity	381	410	418	414	409
Construction	386	415	418	415	409
Subsistence construction	86	87	89	91	94
Services	12,167	12,366	12,074	11,448	11,653
(annual percentage change)	-1.8	1.6	-2.4	-5.2	1.8
Wholesale and retail trade	5,611	5,773	5,490	5,149	5,283
Hotels and restaurants	958	1,042	987	892	894
Transport and communications	1,731	1,738	1,719	1,544	1,530
Finance and insurance	918	995	1,211	1,162	1,157
Real estate and other services	1,077	1,105	1,083	1,039	1,062
Government services	2,363	2,175	2,117	2,131	2,207
Personal services	150	160	140	124	109
Domestic services	121	126	131	137	143
Less: imputed banking charges	764	748	803	730	732
Gross domestic product	16,668	17,113	16,648	15,831	16,211
(annual percentage change)	-2.7	2.7	-2.7	-4.9	2.4

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, 1999–2003

	1999	2000	2001	2002	2003 Est.
	(In millions of vatu; unless otherwise indicated)				
Agriculture, fishing, and forestry	5,263	5,245	5,132	5,030	5,051
(annual percentage change)	-3.6	-0.3	-2.2	-2.0	0.4
Copra	991	716	663	624	619
Cattle	395	409	410	429	477
Cocoa	86	138	68	78	140
Kava	367	436	440	262	260
Other commercial agriculture	119	149	146	132	136
Subsistence agriculture	2,920	2,975	3,103	3,205	3,104
Forestry and logging	262	295	169	165	176
Firewood	124	127	134	134	139
Industry	3,123	3,130	3,105	2,964	2,981
(annual percentage change)	11.6	0.2	-0.8	-4.6	0.6
Manufacturing	1,494	1,468	1,328	1,167	1,209
Electricity	634	598	685	701	683
Construction	816	881	901	898	887
Subsistence construction	180	183	191	198	202
Services	24,013	25,287	25,868	24,733	25,696
(annual percentage change)	0.6	5.3	2.3	-4.4	3.9
Wholesale and retail trade	10,730	10,679	10,705	9,793	10,263
Hotels and restaurants	2,292	2,741	2,603	2,372	2,385
Transport and communications	3,728	4,082	4,166	3,962	4,261
Finance and insurance	1,944	2,160	2,724	2,664	2,677
Real estate and other services	1,868	1,970	2,053	2,013	2,081
Government services	4,368	4,521	4,663	4,825	4,960
Personal services	353	373	333	311	288
Domestic services	346	383	427	466	464
Less: imputed banking charges	1,616	1,622	1,806	1,673	1,683
Gross domestic product	32,399	33,662	34,105	32,727	33,728
(annual percentage change)	0.8	3.9	1.3	-4.0	3.1

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

Table 3. Vanuatu: Agricultural Production, 1999–2003

	1999	2000	2001	2002	2003 Est.
	(In metric tons; unless otherwise indicated)				
Copra (in thousand of tons)	30	27	20	25	25
By center					
Vila	1	0	0	0	0
Santo	30	27	20	25	25
By type of processing					
Smoked	2	0	0	0	0
Hot air/sun dry	29	27	20	25	25
Cocoa	891	1,558	796	1,147	1,521
Beef 1/	3,875	5,734	3,028	2,531	3,127
Pork 2/	33	48	38	51	31
Memoranda items:					
Copra prices (in thousands of vatu per ton)					
Average domestic price paid to producers 3/	35.2	28.2	24.7	27.4	24.1
Average f.o.b. price received	49.2	43.0	22.4	47.2	25.2
Cocoa prices (in thousands of vatu per ton)					
Average domestic price paid to producers	85.8	81.8	95.5	94.8	95.1
Average f.o.b. price received	125.6	94.4	133.6	190.5	193.2
Coconut oil exports (in thousands of tons)	0.0	1.8	8.5	5.3	7.7

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

1/ Total volume slaughtered in Port Vila and Lunganville abattoirs.
2/ Port Vila abattoir only.
3/ Includes transport allowance.

Table 4. Vanuatu: Energy Production and Consumption, 1999–2003

	1999	2000	2001	2002	2003 Est.
1. Electricity production and consumption 1/	(In kilowatts)				
Installed capacity at end of year	18,340	22,160	22,160	22,160	21,700
Maximum demand	8,680	9,390	9,950	9,514	9,400
	(In thousands of megawatt hours)				
Output	43,864	47,270	48,658	47,148	48,212
(annual percentage change)	5.2	7.8	2.9	-3.1	2.3
Sales	38,582	41,446	42,281	40,643	41,471
(annual percentage change)	3.5	7.4	2.0	-3.9	2.0
Sales revenue (in millions of vatu)	1,141	1,349	1,362	1,396	1,411
Average revenue per kilowatt hour (in vatu)	29.6	31.9	32.2	34.3	34.0
2. Petroleum product imports	(In thousands of barrels of oil equivalent) 2/				
Regular gasoline (petrol)	22.9	26.3	34.8	30.4	36.5
Distillate/diesel	104.5	154.7	176.9	156.9	149.7
Kerosene	4.1	5.5	4.4	4.9	5.7
Aviation fuel 3/	0.8	1.3	1.3	1.3	1.4
Liquid petroleum gas (LPG)	10.8	10.9	11.0	11.1	11.2
Total	143.1	198.7	228.4	204.6	204.5
(annual percentage change)	-19.7	38.9	14.9	-10.4	0.0

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, 1999–2003

	1999	2000	2001	2002	2003 Est.
Visitor arrivals	50,746	57,591	53,304	49,462	50,400
(annual percentage change)	-2.6	13.5	-7.4	-7.2	1.9
Of which : Tourists	37,725	44,992	41,612	38,740	38,924
(annual percentage change)	-4.4	19.3	-7.5	-6.9	0.5
Australia	30,769	36,805	33,667	29,730	29,492
New Zealand	6,487	8,024	7,512	7,263	7,729
New Caledonia	5,037	4,124	4,039	4,704	5,050
Other Pacific countries	2,317	2,039	2,182	1,828	2,034
Europe	3,063	3,401	2,687	2,948	3,003
North America	1,343	1,547	1,413	1,438	1,625
Japan	915	811	834	731	571
Other countries 1/	815	840	970	820	896
			(In percent of total)		
Visitor arrivals					
Australia	60.6	63.9	63.2	60.1	58.5
New Zealand	12.8	13.9	14.1	14.7	15.3
New Caledonia	9.9	7.2	7.6	9.5	10.0
Other Pacific countries	4.6	3.5	4.1	3.7	4.0
Europe	6.0	5.9	5.0	6.0	6.0
North America	2.6	2.7	2.7	2.9	3.2
Japan	1.8	1.4	1.6	1.5	1.1
Other countries 1/	1.6	1.5	1.8	1.7	1.8
Average length of stay of visitor (in days)	7.2	7.6	8.3	8.9	9.5
Room-night capacity (in thousands)	254.9	364.1	371.3	367.6	328.9
(Capacity utilization, in percent)	51.9	52.0	49.8	44.2	46.5
Bed-night capacity (in thousands)	591.9	999.3	1,005.6	969.0	869.6
(Capacity utilization, in percent)	44.5	37.0	35.6	32.6	35.3
Cruise-ship passengers	44,853	47,644	52,758	50,027	51,995
(annual percentage change)	78.6	6.2	10.7	-5.2	3.9

Source: National Statistics Office.

1/ Includes visitor arrivals from no stated country.

Table 6. Vanuatu: Consumer Price Index (CPI), 1999–2004 Q2

	Weights 2/ (percent)	1999	2000	2001	2002	2003 3/					2004 3/	
						Q1	Q2	Q3	Q4	Average	Q1	Q2
						(Annual percentage change) 1/						
Food (domestic consumption)	30.5	1.4	1.9	2.2	0.5	2.1	0.8	2.2	4.0	2.3	4.4	3.4
Beverages and tobacco	10.4	4.3	4.8	3.9	8.1	10.3	8.3	9.1	9.1	9.2	0.4	0.4
Clothing and footwear	4.7	1.0	-0.2	0.4	0.0	1.8	0.9	1.7	1.0	1.3	0.4	-0.4
Rent, water, fuel, and electricity	20.7	0.0	4.0	8.7	0.5	-1.6	-1.5	0.4	-0.1	-0.7	0.2	-0.1
Household articles	8.3	4.5	2.3	1.7	-0.2	0.6	-1.1	-0.6	0.2	-0.2	-0.4	-0.9
Transport and communications	13.2	2.7	3.2	4.8	3.9	8.0	5.8	5.7	0.9	5.0	0.9	0.8
Recreation, health, and education	12.3	2.2	1.1	0.5	2.6	6.0	5.8	4.8	3.4	5.0	2.6	2.5
Total	100.0	0.1	2.5	3.7	2.0	3.5	2.4	3.2	2.9	3.0	1.9	1.4
						(2000 Q1 =100)						
Food (domestic consumption)	30.5	98.6	100.5	102.8	103.3	103.2	104.3	107.2	107.7	105.6	107.7	107.8
Beverages and tobacco	10.4	100.0	104.8	108.9	117.8	128.3	128.6	128.9	128.6	128.6	128.8	129.1
Clothing and footwear	4.7	99.8	99.6	100.0	100.1	100.8	101.0	102.2	101.7	101.4	101.2	100.6
Rent, water, fuel, and electricity	20.7	99.3	103.3	112.2	112.8	111.7	112.1	112.5	111.9	112.1	111.9	112.0
Household articles	8.3	99.8	102.0	103.7	103.5	102.9	103.3	104.0	102.7	103.2	102.5	102.4
Transport and communications	13.2	99.9	103.1	108.1	112.3	117.7	117.9	117.9	118.2	117.9	118.8	118.8
Recreation, health, and education	12.3	99.8	101.0	101.4	104.1	109.4	109.6	109.0	109.0	109.3	112.2	112.3
Total	100.0	99.4	102.0	105.7	107.8	110.0	110.6	111.7	111.7	111.0	112.1	112.1

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 based on 1990 Q1 prices.
3/ End of period.

Table 7. Vanuatu: Central Government Fiscal Operations, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of vatu)				
Total revenue and grants	8,358	7,423	7,366	7,082	7,111
Revenue	6,953	7,046	6,696	6,354	6,729
Tax 1/	5,855	5,902	5,794	5,671	6,022
Nontax	1,068	1,123	890	662	692
Capital	31	22	12	20	16
Grants 2/	1,405	378	670	728	382
Total expenditure and net lending	8,549	9,773	8,613	8,410	7,683
(excluding net lending)	8,549	9,773	8,613	8,410	7,683
Current expenditure	6,830	6,896	7,015	7,157	7,108
Wages and salaries	3,594	3,747	3,734	3,929	4,070
Purchases of goods and services	1,844	1,768	1,648	1,666	1,312
Transfers 3/	1,025	971	1,141	1,004	1,117
Interest payments	262	267	281	319	353
Other contributions	105	143	210	239	256
Capital expenditure	1,719	2,877	1,598	1,253	576
Overall balance (excluding onlending)	-191	-2,350	-1,247	-1,328	-572
(including onlending)	-191	-2,350	-1,247	-1,328	-572
Total financing	191	2,350	1,247	1,328	572
Foreign (net)	113	1,893	370	98	-114
Borrowing	907	1,997	468	204	0
Amortization	794	104	98	106	114
Domestic (net)	78	457	877	1,231	686
Banking system	-54	50	130	358	52
Nonbank	132	407	747	873	634
	(In percent of GDP)				
Total revenue and grants	25.8	22.1	21.6	21.6	21.1
Revenue	21.5	20.9	19.6	19.4	20.0
Tax	18.1	17.5	17.0	17.3	17.9
Nontax	3.3	3.3	2.6	2.0	2.1
Capital	0.1	0.1	0.0	0.1	0.0
Grants	4.3	1.1	2.0	2.2	1.1
Total expenditure	26.4	29.0	25.3	25.7	22.8
(excluding net lending)	26.4	29.0	25.3	25.7	22.8
Current expenditure	21.1	20.5	20.6	21.9	21.1
Capital expenditure	5.3	8.5	4.7	3.8	1.7
Net lending	0.0	0.0	0.0	0.0	0.0
Overall balance (excluding onlending)	-0.6	-7.0	-3.7	-4.1	-1.7
(including onlending)	-0.6	-7.0	-3.7	-4.1	-1.7
Total financing	0.6	7.0	3.7	4.1	1.7
Foreign (net)	0.3	5.6	1.1	0.3	-0.3
Domestic financing (net)	0.2	1.4	2.6	3.8	2.0

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, 1999–2003

	1999	2000	2001	2002	2003
			(In millions of vatu)		
Total revenue and grants	8,358	7,423	7,366	7,082	7,111
Total revenue	6,953	7,046	6,696	6,354	6,729
Tax revenue	5,855	5,902	5,794	5,671	6,022
Tax on properties	47	76	89	51	75
Taxes on goods and services	3,333	3,441	3,413	3,344	3,664
Value added tax	2,302	2,465	2,358	2,243	2,359
Business licenses 1/	124	136	111	141	125
Turnover tax	43	45	43	117	98
Internet casino	3	20	13	13	7
Debit tax	0	0	0	0	17
Taxes on tourist services 2/	103	88	114	76	85
Excise/beer duty	36	53	64	86	323
Other	722	634	711	669	650
Taxes on international trade	2,475	2,385	2,292	2,277	2,283
Beer, wine, and spirits	226	192	172	177	123
Tobacco and tobacco products	331	370	337	394	288
Vehicles	151	142	90	85	87
Motor oil	655	545	690	697	726
Other	1,109	1,136	999	923	1,060
Other taxes	0	0	0	0	0
Nontax revenue	1,068	1,123	890	662	692
Public enterprises 3/	431	633	418	331	236
Fines and fees 4/	617	474	447	318	435
Other 5/	19	16	24	14	21
Capital revenue (sales of fixed capital assets)	31	22	12	20	16
Grants	1,405	378	670	728	382
			(In percent of GDP)		
Total revenue and grants	25.8	22.1	21.6	21.6	21.1
Total revenue	21.5	20.9	19.6	19.4	20.0
Tax revenue	18.1	17.5	17.0	17.3	17.9
Tax on income and profits	0.1	0.2	0.3	0.2	0.2
Taxes on goods and services	10.3	10.2	10.0	10.2	10.9
Taxes on international trade	7.6	7.1	6.7	7.0	6.8
Export duties	0.0	0.0	0.0	0.0	0.0
Import duties	7.6	7.1	6.7	7.0	6.8
Other taxes	0.0	0.0	0.0	0.0	0.0
Nontax revenue	3.3	3.3	2.6	2.0	2.1
Memorandum item:					
Effective import duties (in percent of imports)	18.9	18.7	16.8	17.6	17.2

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/ Gross income of water suppliers and post and telecommunications providers.
4/ Police and immigration fees, primary education fees, hospital fees, fines and forfeits, and other miscellaneous fees and sales.
5/ Includes port and marine revenue, other property income, and miscellaneous customs revenue.

Table 9. Vanuatu: Central Government Current Expenditure, 1999–2003

	1999	2000	2001	2002	2003
1. Economic classification		(In millions of vatu)			
Total current expenditure 1/	6,830	6,896	7,015	7,157	7,108
Wages and salaries	3,594	3,747	3,734	3,929	4,070
Purchases of goods and services	1,844	1,768	1,648	1,666	1,312
Other Contributions	105	143	210	239	256
Interest payments 2/	262	267	281	319	353
Transfers 3/	1,025	971	1,141	1,004	1,117
		(In percent of total current expenditure)			
Wages and salaries	52.6	54.3	53.2	54.9	57.3
Purchases of goods and services	27.0	25.6	23.5	23.3	18.5
Other Contributions	1.5	2.1	3.0	3.3	3.6
Interest payments	3.8	3.9	4.0	4.5	5.0
Transfers	15.0	14.1	16.3	14.0	15.7
2. Functional classification		(In millions of vatu)			
Total	7,144	7,198	7,199	7,230	7,192
General public services	1,827	1,912	1,969	1,818	1,767
Defense, public order and safety	645	674	649	771	721
Education	1,746	1,848	1,932	2,065	2,074
Health	858	904	908	926	925
Economic affairs and services	1,819	1,627	1,474	1,457	1,528
Other expenditure 4/	249	233	266	193	177
		(In percent of total current expenditure)			
General public services	26.8	27.7	28.1	25.4	24.9
Public order and safety	9.4	9.8	9.3	10.8	10.1
Education	25.6	26.8	27.5	28.9	29.2
Health	12.6	13.1	12.9	12.9	13.0
Economic affairs and services	26.6	23.6	21.0	20.4	21.5
Other expenditure	3.7	3.4	3.8	2.7	2.5

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

Table 10. Vanuatu: Government Development Fund, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of vatu)				
1. Resources					
Foreign grants (in cash)	635	965	646	901	309
Australia	282	104	141	233	79
Canada	1	7	0	9	11
China	115	5	168	1	0
European Development Fund	0	9	0	211	0
France	9	0	0	8	5
Japan	5	4	29	44	8
New Zealand	79	112	73	106	149
STABEX receipts	0	3	3	0	0
United Kingdom	2	8	11	15	2
United Nations	12	13	13	10	37
United Nations Development Program	8	36	25	6	2
World Health Organisation	4	4	12	12	16
Other	118	659	172	245	1
Other resources	1,677	1,410	394	-179	74
Transfers from recurrent budget	0	0	0	-303	0
AsDB/IDA/CFD/China P.R. loans	1,677	1,410	394	0	0
Domestic financing	...	...	...	124	1
Other	1	0	0	0	72
Total resources	2,312	2,374	1,040	722	383
2. Expenditure					
Agriculture, land and natural resources	124	130	137	138	148
Transport and communications	747	1,527	589	199	21
Internal affairs	17	48	58	77	108
Health	177	45	62	81	57
Education, culture and sports	257	109	50	46	52
Constitutional	216	134	86	41	16
Finance, commerce and industry	589	498	407	134	21
General administration	15	34	28	9	15
Total expenditure (in cash)	2,142	2,525	1,418	724	437
Development Fund balance	171	-151	-378	-2	-55
Stock of assets in the Development Fund 1/	930	779	400	398	344
Memorandum item:					
Grants-in-kind	1,215	1,795	1,570	1,258	873

Source: Vanuatu authorities.

1/ End of period.

Table 11. Vanuatu: Operations of the Vanuatu National Provident Fund, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of vatu; unless otherwise indicated)				
1. Inflows and outflows					
Balance (at beginning of year)	689	1,121	1,816	3,115	4,082
Inflows	559	851	1,530	1,338	1,321
Contribution received	446	726	1,024	1,085	1,005
Interest income	28	78	121	171	251
Other operating income	17	42	60	82	64
Government grants	68	5	325	0	1
Outflows	127	156	230	371	493
Withdrawals/payments	29	57	108	158	223
Operating expenses	98	99	122	180	252
Personnel expenses	37	47	52	63	74
Depreciation and amortization	27	19	17	20	21
Others	34	34	53	96	157
Others	...	...	...	33	18
Balance (at end-year)	1,121	1,816	3,115	4,082	4,910
2. Investment portfolio	1,121	1,816	3,115	4,082	4,910
Cash and equivalents 1/	492	632	913	1,321	1,702
Receivables	16	34	58	61	90
Government bonds and notes	60	493	1,176	1,836	2,237
U.S. Treasury notes	…	323	610	719	656
Vanuatu government bonds 2/	60	170	566	1,116	1,581
Other investments					
Property investment	505	496	506	501	533
Machinery and equipment	22	24	22	25	19
Others	26	137	441	339	330
Memorandum item:					
Number of contributing members	22,865	26,976	18,607	17,297	17,222

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. Balance Sheet of the Monetary Authorities, 1999-2004 1/

	1999	2000	2001	2002	2003	2004			
						Mar.	Jun.	Sept.	Dec.
	(In millions of vatu; end of period)								
Net foreign assets	5,406	5,471	5,375	4,703	4,738	4,661	5,049	5,508	6,413
Reserve Bank of Vanuatu	5,290	5,355	5,259	4,606	4,738	4,661	5,049	5,508	6,413
Assets	5,509	5,583	5,531	4,854	4,954	4,881	5,278	5,745	6,615
Liabilities	219	228	273	249	216	219	229	237	202
Treasury foreign assets	116	116	116	97	0	0	0	0	0
Net domestic assets	-1,298	-1,090	-938	-224	91	-149	-147	-450	-1,118
Net claims on government	-499	-340	-111	373	638	580	663	558	327
Claims on public enterprises	32	58	294	320	0	0	0	0	0
Claims on commercial banks	19	-99	-446	-324	1	-223	-373	-571	-1,069
Other items (net)	-849	-709	-675	-592	-548	-505	-437	-436	-376
Reserve money	4,108	4,382	4,438	4,479	4,829	4,513	4,902	5,059	5,295
(annual percentage change)	18.0	6.6	1.3	0.9	7.8	-2.5	4.3	7.7	9.7
Currency outside banks	1,936	1,834	1,941	1,916	2,108	1,984	2,142	2,218	2,490
Currency held by banks	309	276	297	357	451	324	296	381	477
Commercial banks' deposits	1,864	2,271	2,199	2,206	2,269	2,205	2,464	2,460	2,328

Source: Reserve Bank of Vanuatu.

1/ Including the Reserve Bank of Vanuatu and foreign exchange held by the Treasury.

Table 13. Vanuatu: Balance Sheet of the Commercial Banks, 1999–2004

	1999	2000	2001	2002	2003	2004			
						Mar.	Jun.	Sept.	Dec.
	(In millions of vatu; end of period)								
Reserves	2,173	2,547	2,497	2,563	2,720	2,529	2,760	2,841	2,805
Cash on hand	309	276	297	357	451	324	296	381	477
Balances with Reserve Bank	1,864	2,271	2,199	2,206	2,269	2,205	2,464	2,460	2,328
Net foreign assets	16,799	19,206	20,937	20,042	19,942	22,107	22,911	22,383	21,162
Assets	21,172	22,940	25,115	28,727	27,209	28,934	29,358	28,683	28,061
Liabilities	4,373	3,735	4,178	8,685	7,268	6,827	6,447	6,300	6,899
Net credit to government	789	1,260	815	947	491	666	610	616	628
Claims	930	1,417	1,108	1,191	773	863	838	813	813
Vatu 1/	930	1,417	1,108	1,191	773	863	838	813	813
Foreign currency	0	0	0						
Deposits	141	157	292	244	283	198	228	197	185
Vatu	140	157	292	244	283	198	228	197	185
Foreign currency	1	0	0	0	0	0	0	0	0
Claims on public enterprises	53	100	28	15	16	31	29	26	29
Vatu	53	100	28	15	16	31	29	26	29
Foreign currency	0	0	0	0	0	0	0	0	0
Claims on private sector	12,158	11,556	12,295	13,265	14,558	14,654	15,107	15,435	15,953
Vatu	9,172	9,453	9,802						
Foreign currency	2,986	2,103	2,494	13,265	14,558	14,654	15,107	15,435	15,953
Monetary liabilities	29,674	31,737	33,617	33,092	32,620	34,576	35,626	35,778	35,658
Demand deposits	5,296	6,051	5,974	9,608	10,067	10,009	10,070	10,155	10,243
Vatu	2,607	2,935	3,095	3,749	3,763	3,666	4,304	4,098	4,067
Foreign currency	2,689	3,116	2,880	5,859	6,304	6,344	5,766	6,057	6,176
Time and savings deposits	24,378	25,686	27,643	23,485	22,553	24,566	25,556	25,624	25,414
Vatu	6,371	6,401	6,344	7,245	7,810	8,094	8,526	8,747	9,261
Foreign currency	18,006	19,286	21,299	16,240	14,743	16,473	17,030	16,876	16,153
Credit from the monetary authorities	316	0	0	0	100	0	0	0	0
Other items (net)	2,297	2,932	2,955	3,739	5,107	5,411	5,790	5,522	4,920

Source: Reserve Bank of Vanuatu.

1/ Including commercial banks' holdings of Vanuatu government bonds.

Table 14. Vanuatu: Monetary Survey, 1999-Dec. 2004

	1999	2000	2001	2002	2003	2004			
						Mar.	Jun.	Sept.	Dec.
	(In millions of vatu; end of period)								
Net foreign assets	22,089	24,677	26,312	24,744	24,679	26,768	27,960	27,891	27,575
Monetary authorities 1/	5,290	5,471	5,375	4,703	4,738	4,661	5,049	5,508	6,413
Commercial banks	16,799	19,206	20,937	20,042	19,942	22,107	22,911	22,383	21,162
Net domestic assets	9,521	8,895	9,246	10,361	10,050	9,791	9,809	10,106	10,572
Domestic credit	12,536	12,638	13,327	14,921	15,709	15,929	16,407	16,641	16,943
Claims on government (net)	293	923	710	1,322	1,134	1,244	1,271	1,180	961
Claims on private sector	12,158	11,556	12,295	13,265	14,558	14,654	15,107	15,435	15,953
Claims on nonfinancial public enterprises	85	158	322	334	16	31	29	26	29
Other items (net)	-3,015	-3,627	-3,964	-4,560	-5,659	-6,138	-6,598	-6,535	-6,371
Total broad money (M4)	31,610	33,571	35,558	35,009	34,729	36,559	37,768	37,996	38,148
Narrow money	4,543	4,769	5,036	5,666	5,872	5,649	6,446	6,316	6,557
Currency outside banks	1,936	1,834	1,941	1,916	2,108	1,984	2,142	2,218	2,490
Demand deposits (vatu)	2,607	2,935	3,095	3,750	3,764	3,666	4,304	4,098	4,067
Quasi-money	27,067	28,802	30,523	29,343	28,857	30,910	31,322	31,680	31,590
Time and savings deposits (vatu)	6,371	6,401	6,344	7,245	7,810	8,094	8,526	8,747	9,261
Demand deposits in foreign currencies	2,689	3,116	2,880	5,859	6,304	6,344	5,766	6,057	6,176
Time and savings deposits in foreign currencies	18,006	19,286	21,299	16,240	14,743	16,473	17,030	16,876	16,153
	(Annual percentage change)								
Total broad money	-9.8	6.2	5.9	-1.7	-0.8	7.0	15.0	11.9	9.8
Of which : Vatu broad money	-8.4	2.3	1.9	13.0	6.0	4.6	12.3	13.5	15.6
Narrow money	-5.4	5.0	5.6	11.4	3.6	-9.9	16.1	19.3	11.7
Quasi-money	-10.5	6.4	6.0	-3.9	-1.7	10.8	14.8	10.5	9.5
Of which : Foreign currency deposits	-10.5	8.2	7.9	-8.6	-4.8	8.5	16.9	10.8	6.1
Net domestic assets	20.6	-5.4	3.9	10.7	-3.0	-4.1	-5.1	2.2	5.2
Domestic credit	11.1	0.8	5.4	12.0	5.3	5.8	6.2	7.7	7.9
Private sector credit	14.6	-4.9	6.4	7.9	9.8	9.8	9.3	10.3	9.6
Memoranda items:									
Foreign currency deposit (share of total deposits)	69.7	70.6	71.9	66.8	64.5	66.0	64.0	64.1	62.6
GDP/narrow money 2/	7.1	7.1	6.8	5.8	5.7	...	...	...	5.7
GDP/vatu liquidity 3/	3.0	3.0	3.0	2.5	2.5	...	...	...	2.3
GDP/foreign currency liquidity 4/	1.6	1.5	1.4	1.5	1.6	...	...	...	1.7
GDP/M2 5/	4.5	4.3	4.3	2.8	2.8	...	...	...	2.9
GDP/M3 6/	2.4	2.4	2.4	1.7	1.7	...	...	...	1.7
GDP/M4 7/	1.0	1.0	1.0	0.9	1.0	...	...	...	1.0

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

1/ Including the Reserve Bank of Vanuatu and foreign exchange held by the Treasury.
2/ M1 defined as the sum of currency outside banks and vatu demand deposits.
3/ Vatu liquidity defined as the sum of M1 and vatu time and savings deposits.
4/ Foreign currency liquidity defined as the sum of foreign currency demand, and time and savings deposits.
5/ M2 defined as the sum of M1 and foreign currency demand deposits.
6/ M3 defined as the sum of M2 and vatu savings and time deposits.
7/ M4 defined as the sum of M3 and foreign currency time and savings deposits.

Table 15: Vanuatu: Commercial Bank Credit to Residents by Sector and by Currency, 1999-2004 1/

	1999	2000	2001	2002	2003	2004
	(In percent of total credit; end-period)					
Total bank credit	100.0	100.0	100.0	100.0	100.0	100.0
Private sector	99.7	99.2	99.3	100.0	99.9	99.7
Agriculture and fisheries	2.2	2.2	2.2	2.3	1.9	1.7
Mining and manufacturing	2.5	2.4	3.5	3.1	5.8	3.1
Construction	23.4	21.7	19.0	21.0	18.7	16.9
Transport	6.5	9.1	8.0	4.5	4.0	4.2
Public utilities	2.1	2.0	1.9	3.0	0.1	0.0
Wholesale and retail trade	11.2	14.9	13.8	12.5	12.2	10.0
Tourism	3.7	3.7	7.5	7.3	9.0	8.2
Entertainment and catering	1.6	1.7	1.5	1.2	1.1	1.3
Professional and other services	1.5	4.3	7.8	7.3	6.3	5.7
Personal 2/	38.8	36.7	34.1	36.5	39.0	37.5
Financial institutions 3/	0.1	0.3	0.3	0.3	0.3	0.9
Other	6.0	0.2	-0.2	1.3	1.4	5.8
Public enterprises	0.3	0.8	0.7	0.0	0.1	0.3
Bank credit (in Vatu)	75.2	81.2	79.5	83.1	90.6	90.4
Private sector	74.9	80.5	78.8	83.0	90.5	90.1
Agriculture and fisheries	2.1	2.1	2.2	2.3	1.9	1.7
Mining and manufacturing	2.2	2.2	3.1	3.0	5.2	3.0
Construction	17.5	14.6	16.6	19.2	17.7	16.5
Transport	6.3	8.5	7.0	4.5	4.0	3.8
Public utilities	2.1	2.0	1.8	2.9	0.1	0.0
Wholesale and retail trade	10.8	13.8	13.3	12.2	12.1	9.6
Tourism	2.7	2.3	2.5	3.6	5.4	4.9
Entertainment and catering	1.4	1.5	1.4	1.1	1.1	1.3
Professional and other services	1.4	4.1	3.7	3.8	6.2	5.7
Personal 2/	23.4	28.5	27.0	29.7	35.4	37.5
Financial institutions 3/	0.1	0.1	0.1	0.1	0.2	0.7
Other	4.8	0.6	0.3	1.0	1.2	5.4
Public enterprises	0.3	0.8	0.7	0.0	0.1	0.3
Bank credit (in foreign currency)	24.8	18.8	20.5	16.9	9.4	9.6
Private sector	24.8	18.8	20.5	16.9	9.4	9.6
Agriculture and fisheries	0.1	0.0	0.0	0.0	0.0	0.0
Mining and manufacturing	0.4	0.2	0.4	0.2	0.6	0.1
Construction	6.0	7.0	2.4	1.8	1.1	0.4
Transport	0.2	0.5	1.0	0.0	0.0	0.3
Public utilities	0.0	0.0	0.1	0.1	0.0	0.0
Wholesale and retail trade	0.4	1.1	0.5	0.3	0.1	0.4
Tourism	1.0	1.4	5.0	3.7	3.6	3.3
Entertainment and catering	0.2	0.2	0.1	0.1	0.0	0.0
Professional and other services	0.1	0.2	4.1	3.5	0.1	0.0
Personal 2/	15.4	8.2	7.1	6.8	3.6	0.0
Financial institutions 3/	0.0	0.3	0.2	0.2	0.1	0.2
Other	1.2	-0.4	-0.5	0.3	0.2	0.4
Public enterprises	0.0	0.0	0.0	0.0	0.0	0.0

Source: Reserve Bank of Vanuatu.

1/ Excludes commercial credit to the government.
2/ Includes housing and land purchases.
3/ Includes public financial institutions.

Table 16. Vanuatu: Selected Interest Rates, 1999–2004

	1999	2000	2001	2002	2003	2004
	(In percent per annum; end of period)					
Vatu deposits						
Savings	0.50 - 3.50	0.50 - 4.00	0.50 - 4.00	0.50 -2.00	0.50-2.00	0.50-2.00
One month	1.25 - 6.00	1.25 - 4.50	1.25 - 3.86	1.00-5.00	1.50-6.00	2.00-5.00
Two to six months	1.25 - 6.10	1.25 - 5.00	1.25 - 5.50	1.00-5.75	1.50-6.00	2.00-6.00
More than six months	1.25 - 6.10	1.75 - 6.00	1.50 - 7.00	1.75-6.25	1.75-4.75	2.75-7.55
Vatu advances						
Commercial	10.75 - 18.00	9.75 - 18.00	9.75 - 18.00	10.00-16.00	6.50-16.00	8.50-16.00
Personal	10.00 - 21.00	11.75 - 25.00	11.75 - 25.00	9.75-25.00	9.75-25.00	12.00-25.00
Housing	8.75 - 16.25	10.95 - 18.25	6.00 - 16.25	5.90-12.50	5.90-18.50	5.90-14.75
Foreign exchange deposits 1/	2.30 - 4.75	3.00 - 5.56	2.66 - 3.86	3.13-4.09	3.55-4.425	3.55-4.55
Weighted averages 2/						
Bank loans	12.30	13.47	13.43	11.58	11.73	11.59
Bank deposits	3.00	3.40	2.13	2.07	2.18	2.40
Fixed deposits	3.80	4.14	3.55	4.13	5.02	5.42
Memorandum item:						
Interest spread 3/	9.30	10.07	11.30	9.51	9.55	9.19

Source: Reserve Bank of Vanuatu.

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: Financial System Structure, 2001-03

Type of Institution	Assets								Number of Institutions		
	(In millions of Vatu)			(In percent of total)		(In percent of GDP)					
	2001	2002	2003	2002	2003	2001	2002	2003	2001	2002	2003
Onshore financial sector 1/	53,561	58,052	58,346	15.5	56.2	157.0	177.4	173.0	5	5	5
Reserve Bank of Vanuatu (RBV)	7,277	6,770	6,864	1.8	6.6	21.3	20.7	20.4	1	1	1
Commercial banks	43,147	47,181	46,550	12.6	44.8	126.5	144.2	138.0	3	3	3
Vanuatu National Provident Fund (VNPF)	3,137	4,101	4,931	1.1	4.7	9.2	12.5	14.6	1	1	1
Offshore financial sector	...	317,417	45,473	84.5	43.8	...	969.9	134.8			
Offshore banks	...	316,067	44,159	84.2	42.5	...	965.8	130.9	38	34	25
Trust and insurance companies	708	773	775	0.2	0.7	2.1	2.4	2.3	...	...	...
Accounting and legal firms	582	577	539	0.2	0.5	1.7	1.8	1.6	...	...	...
Total financial system	...	375,469	103,818	100.0	100.0	...	1,147.3	307.8	...	...	...

Sources: Reserve Bank of Vanuatu; and Vanuatu Financial Services Commission.

1/ Excluding other nonbank financial institutions (i.e., insurance companies, credit unions, cooperatives, and money changers).

Table 18. Vanuatu: Summary Operations of Main Finance Centre Institutions, 2001-2004

Type of Institution	2001	2002	2003	2004 1/	2001	2002	2003
	(In millions of Vatu)				(In percent of GDP)		
Assets Held in Vanuatu (end-period)							
Banks	30,374	42,681	39,639	42,464	89.1	130.4	117.5
Trust and insurance companies	708	773	775	1,194	2.1	2.4	2.3
Accounting and legal firms	582	577	539	717	1.7	1.8	1.6
Total	31,664	44,031	40,953	44,375	92.8	134.5	121.4
Gross Earnings 2/							
Banks	2,685	2,426	3,521	3,449	7.9	7.4	10.4
Trust and insurance companies	770	1,233	877	316	2.3	3.8	2.6
Accounting and legal firms	897	787	774	624	2.6	2.4	2.3
Total	4,352	4,446	5,172	4,389	12.8	13.6	15.3
Total local expenditure 3/							
Banks	1,130	1,591	2,097	1,173	3.3	4.9	6.2
Trust and insurance companies	580	683	452	394	1.7	2.1	1.3
Accounting and legal firms	979	915	901	746	2.9	2.8	2.7
Total	2,689	3,189	3,450	2,313	7.9	9.7	10.2
Of which: Wages and salaries							
Banks	411	509	476	380	1.2	1.6	1.4
Trust and insurance companies	135	198	159	166	0.4	0.6	0.5
Accounting and legal firms	449	446	440	354	1.3	1.4	1.3
Total	995	1,153	1,075	900	2.9	3.5	3.2
Of which: Taxes and levies 4/							
Banks	50	132	119	102	0.1	0.4	0.4
Trust and insurance companies	11	15	15	11	0.0	0.0	0.0
Accounting and legal firms	348	309	306	250	1.0	0.9	0.9
Total	409	456	440	363	1.2	1.4	1.3
Number of registered companies							
Onshore banks	4	3	3	3			
Offshore banks	38	34	25	9			
Trusts	13	10	11	10			
International companies	4,156	4,504	4,310	4,451			
Total employment							
Banks	313	332	316	308			
Trust and insurance companies	62	71	78	90			
Accounting and legal firms	142	144	136	147			
Total	517	547	530	545			
Memoranda items:							
Number of local companies	1,289	1,341	1,292	1,332			
Vanuatu Shipping Registry							
Number of ships registered	528	515	563	587			
Net shipping fees (in millions of Vatu)	215	218	178	144	0.6	0.7	0.5

Source: Reserve Bank of Vanuatu; and Vanuatu Financial Services Commission.

1/ As of end-September 2004.
2/ On resident and nonresident assets.
3/ Including nontax recurrent expenditure, taxes and levies, and capital expenditure.
4/ Including central government fees, import duties, and local government revenue.
5/ On resident and nonresident liabilities.

Table 19. Vanuatu: Balance of Payments, 1999–2003 1/
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003
Current account balance	-12.2	4.8	4.7	-14.1	-23.5
(excluding official transfers)	-31.1	-13.4	-11.6	-30.0	-38.5
Trade balance	-57.8	-50.3	-58.1	-54.6	-60.2
Exports (f.o.b.)	25.7	27.2	19.9	20.1	26.6
Domestic exports	22.4	24.3	15.8	15.3	21.3
Reexports	3.3	3.0	4.1	4.8	5.3
Imports (f.o.b.)	-83.5	-77.5	-78.1	-74.6	-86.8
Domestic consumption	-82.8	-75.3	-75.1	-73.4	-85.9
Imports for reexports	-0.7	-2.2	-2.9	-1.2	-0.9
Services	42.7	59.1	46.2	36.0	40.3
Receipts	114.8	129.9	119.3	81.2	94.4
Of which : travel	50.0	56.3	46.1	44.2	52.0
Payments	-72.1	-70.8	-73.0	-45.3	-54.2
Income	-5.1	-13.0	-4.0	-6.2	-11.6
Receipts	21.0	18.8	17.2	22.4	24.2
Payments	-26.1	-31.8	-21.2	-28.6	-35.8
Current transfers (net)	8.0	8.9	20.6	10.7	8.0
Official transfers (net)	18.9	18.2	16.4	15.9	15.0
Private transfers (net)	-10.9	-9.3	4.2	-5.2	-7.0
Capital and financial account balance	6.0	-2.6	-10.5	21.0	34.6
Capital account	-49.7	-20.1	-15.9	-2.2	-4.6
Official capital transfers (net)	7.6	10.7	11.8	6.1	4.8
Private capital transfers (net)	-57.3	-30.8	-27.7	-8.3	-9.5
Financial account	55.7	17.4	5.5	23.2	39.3
Foreign direct investment	13.4	20.3	18.0	8.2	14.7
Portfolio investment (net)	-1.0	0.7	-4.3	-0.3	2.0
Government	5.0	16.0	-3.4	3.0	3.5
Disbursements	5.3	16.7	3.2	3.4	3.7
Amortization	-0.3	-0.8	-6.6	-0.4	-0.3
Other investment	38.3	-19.5	-4.7	12.4	19.0
Errors and omissions	-1.3	-18.1	-7.2	-10.4	-3.1
Overall balance	-7.5	-16.0	-13.0	-3.5	7.9
Financing	7.5	16.0	13.0	3.5	-7.9
Change in RBV net official reserves	-0.1	5.3	1.2	3.5	-7.9
Debt forgiveness	7.6	10.7	11.8	0.0	0.0
Memoranda items:					
Gross official reserves (in million U.S. dollars)	42.7	39.1	37.7	36.4	44.3
(in months of prospective imports) 2/	5.1	5.1	4.8	4.9	5.1
(in months of prospective imports of goods and services	3.5	3.1	3.8	3.1	3.5
Exports (annual percentage change)	-24.3	6.2	-26.9	0.8	32.5
Imports (annual percentage change)	11.1	-8.6	0.8	-5.3	19.6
Current account balance (in percent of GDP)	-4.9	2.0	2.0	-6.0	-8.5
(excluding official transfers)	-12.4	-5.5	-5.0	-12.8	-14.0

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

1/ Significant improvements in data compilation from 2002 forward account for a break in the series through 2001.
2/ Imports values are on c.i.f. basis.

Table 20. Vanuatu: Merchandise Exports by Commodities, 1999–2003

(In million of U.S. dollars; unless otherwise indicated)

	1999	2000	2001	2002	2003
Total exports	25.7	27.2	19.9	20.1	26.6
(annual percentage change)	-24.3	6.2	-26.9	0.8	32.5
Exports, f.o.b.	22.4	24.3	15.8	15.3	21.3
Copra	10.7	8.0	2.2	1.3	2.3
Coconut oil	0.0	0.9	2.5	3.4	3.1
Cocoa	1.1	1.1	0.4	1.0	2.4
Beef	3.1	2.8	1.6	1.4	2.3
Timber	2.6	3.0	2.3	1.4	2.0
Kava	2.4	3.5	3.5	3.1	1.8
Other	2.5	5.1	3.3	3.7	7.2
Reexports	3.3	3.0	4.1	4.8	5.3
In percent of total value					
Exports, f.o.b.	87.3	89.1	79.5	76.3	79.9
Copra	41.8	29.2	11.2	6.2	8.7
Coconut oil	-	3.4	12.5	16.8	11.8
Cocoa	4.3	3.9	2.2	5.2	9.1
Beef	12.2	10.1	8.3	6.9	8.8
Timber	10.0	11.1	11.5	7.1	7.7
Kava	9.5	12.8	17.4	15.6	6.9
Other	9.6	18.6	16.5	18.5	27.0
Reexports	12.7	10.9	20.5	23.7	20.1
Volume of exports (in metric tons)					
Copra	27,732	30,434	14,258	11,406	10,620
Coconut oil	...	1,812	8,516	5,329	7,722
Cocoa	1,104	1,536	538	756	1,532
Beef	1,577	1,361	815	684	1,021
Timber	11,069	8,552	5,972	3,882	5,501
Kava	334	555	935	954	529
Volume of exports (annual percentage change)					
Copra	-31.3	9.7	-53.2	-20.0	-6.9
Coconut oil	...	...	370.0	-37.4	44.9
Cocoa	-31.6	39.1	-65.0	40.5	102.6
Beef	21.5	-13.7	-40.1	-16.1	49.3
Timber	-6.1	-22.7	-30.2	-35.0	41.7
Kava	-55.4	66.2	68.5	2.0	-44.5

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

Table 21. Vanuatu: Direction of Trade, 1999–2003

(In percent of total)

	1999	2000	2001	2002	2003
Exports, f.o.b. 1/					
Australia	2.8	6.1	22.9	29.2	20.8
New Zealand	1.7	3.4	3.8	3.4	1.2
New Caledonia	1.9	5.9	5.4	9.0	9.2
Japan	19.4	12.4	11.9	10.7	9.8
South Korea	4.3	0.9	1.7	0.2	0.4
Bangladesh	5.3	22.2	8.1	4.9	2.9
European Union	43.9	18.9	8.2	10.8	15.2
Other	20.7	30.2	38.0	31.9	40.5
Total	100.0	100.0	100.0	100.0	100.0
Imports, c.i.f. 2/					
Australia	42.8	45.9	43.0	39.3	42.7
New Zealand	13.5	11.7	16.4	17.6	13.5
New Caledonia	5.5	4.7	3.4	4.0	2.0
Japan	6.0	5.7	4.2	3.8	5.4
Fiji	5.2	8.8	8.8	8.3	7.4
European Union	3.8	2.6	4.6	5.3	5.6
Hong Kong	2.6	1.8	1.3	1.5	1.8
Singapore	2.0	2.7	4.2	3.6	7.4
Other	18.6	16.2	14.1	16.6	14.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Reserve Bank of Vanuatu.

1/ Domestic exports.
2/ Imports for domestic consumption.

Table 22. Vanuatu: External Public Debt and Debt Service, 1999–2003

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

	1999	2000	2001	2002	2003 Est.
Total external debt outstanding (disbursed) 1/					
Beginning-of-period stock	53.6	63.7	66.4	69.1	73.7
Net flow	0.9	13.8	2.5	0.7	-0.9
Disbursements	7.0	14.5	3.2	1.5	0.0
Amortization	6.2	0.8	0.7	0.8	0.9
Adjustment 2/	9.2	-11.1	0.2	3.9	14.0
End-of-period stock	63.7	66.4	69.1	73.7	86.7
Debt service	6.7	1.4	1.4	1.5	1.8
Principal	6.2	0.8	0.7	0.8	0.9
Interest	0.6	0.6	0.7	0.7	0.9
Memoranda items:					
External debt/GDP (in percent)	25.3	28.2	29.7	30.0	28.8
Debt service ratio (in percent) 3/	4.8	0.9	1.0	1.5	1.5

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 services.

Table 23. Vanuatu: International Reserves, 2000-2004
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Reserve Bank of Vanuatu (net)	37.5	35.8	34.6	42.4	60.2
Foreign assets	39.1	37.7	36.5	44.3	62.1
Foreign exchange	35.2	33.5	32.0	39.0	56.5
Reserve position in IMF	3.1	3.2	3.3	3.9	4.1
SDRs	0.8	1.0	1.1	1.4	1.5
Foreign liabilities	1.6	1.9	1.9	1.9	1.9
Government	0.8	0.8	0.7	0.0	0.0
Foreign assets	0.8	0.8	0.7	0.0	0.0
Foreign liabilities	0.0	0.0	0.0	0.0	0.0
Total official reserves	38.3	36.6	35.3	42.4	60.2
Foreign assets	39.9	38.5	37.2	44.3	62.1
Foreign liabilities	1.6	1.9	1.9	1.9	1.9
Commercial banks (net)	134.5	142.7	150.5	178.4	198.7
Foreign assets	160.6	171.2	215.7	243.4	263.4
Foreign liabilities	26.2	28.5	65.2	65.0	64.8
Memorandum item:					
Gross official reserves					
(in months of prospective imports of goods and services)	3.1	3.8	3.1	3.5	4.5

Source: Reserve Bank of Vanuatu.

Table 24. Vanuatu: Tax summary

<table>
<tr><th>No.</th><th>Tax type</th><th>Tax base and Rates</th><th>Selected Exemptions</th></tr>
<tr><td>1</td><td>Taxes on property</td><td>Tax base: Land leased for commercial purposes.
Rates: Initial fee of 2 percent is payable for the first registration of a land lease and on each transfer thereafter. Annual rate for land lease of 2 percent is also applied to the official land value in 1980. The official land value will be revised in 2005.</td><td></td></tr>
<tr><td>2</td><td>VAT</td><td>Tax base: Turnover from the sale of goods, works, and services, except for those used for one’s own production needs.
Rates: 12.5 percent</td><td>Goods for specified industries under the registration can be granted reduced rates or full exemptions. Statutory authorities are also granted full-exemptions.</td></tr>
<tr><td>3</td><td>Business licenses</td><td>Tax base: Licensing businesses specified under the Business License Act, 1998.
Rates: Annual rates vary depending on the scale of business as described below.<table><tr><td>Annual turnover</td><td><VT10mil.</td><td>VT10-50mil.</td><td>VT50-200mil.</td><td>>VT200mil.</td></tr><tr><td>Business license fee</td><td>VT20,000</td><td>VT50,000</td><td>VT250,000</td><td>VT1,000,000</td></tr></table>Small-scale selected businesses (take-away foods outlets and imports) are applied minimum rates of VT5,000 and VT10,000.</td><td></td></tr>
<tr><td>4</td><td>Turnover tax</td><td>Tax base: Business turnover from financial and other professional services.
Rates:
I. Commercial banks: 7 percent of specified turnover, minimum fee of VT5,500,000.
II. Other financial institutions: 5 percent of specified turnover, minimum fee of VT330,000.
III. Vanuatu licensed insurance companies and insurance agents: 5 percent of specified turnover, minimum fee of VT20,000.
IV. Insurance brokers: 5 percent of specified turnover, minimum fee of VT220,000.
V. Other professional business services: 5 percent of specified turnover, minimum fee of VT20,000.</td><td></td></tr>
<tr><td>5</td><td>Internet Casino</td><td>Tax base: Gross payments and turnover from internet casinos.
Rates: 2.5 percent of gross payments; 0.25 percent of turnover.</td><td></td></tr>
<tr><td>6</td><td>Gaming and casino service tax</td><td>Tax base: Gross profit from gaming and casino.
Rates: Fixed annual fee plus 7.5-30 percent of gross profit for gaming and 15 percent of gross profit for casino.</td><td></td></tr>
<tr><td>7</td><td>Excise tax</td><td>Tax base: Selected goods produced in or imported into the country, as specified under the registration.
Rates:
1. Alcohol: VT100-850 per liter depending on the type.
2. Tobaccos: VT2 per stick.
3. Fuel: VT5 per liter.</td><td>Goods for specified industries under the registration can be granted reduced rates or full exemptions. Statutory authorities are also granted full-exemptions.</td></tr>
<tr><td>8</td><td>Import duty</td><td>Tax base: Selected goods imported into the country, as specified under the registration.
Rates: 5-55 percent, except for items listed below.
• Alcohol: VT166-800 per liter depending on the type.
• Tobaccos: VT10 per stick for cigarettes, and VT750 per kg for others.
Motor spirits: VT26 per liter for diesel; 27 per liter for unleaded fuel.</td><td>Goods imported for specified industries under the registration can be granted reduced rates or full exemptions upon prior discretional approval of the Director of Customs.</td></tr>
</table>