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March 13, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Vanuatu - Exchange Arrangements

The attached paper on Vanuatu's exchange arrangements is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Vanuatu--Exchange Arrangements

Prepared by the Asian Department and the Exchange and
Trade Relations Department

(In consultation with the Legal Department)

Approved by P. R. Narvekar and Donald K. Palmer

March 13, 1984

In the attached communication dated March 11, 1984 the authorities of Vanuatu notified the Fund of a 5.6 percent revaluation of the vatu vis-à-vis the SDR, to which the vatu is pegged, with effect from March 12, 1984. The new midpoint exchange rate of the vatu is VT 100.60 = SDR 1, compared with the previous rate of VT 106.20 = SDR 1. The decision was taken in an effort to contain the inflationary impact arising from the recent depreciation of the vatu, particularly in relation to the Australian dollar.

The Staff Report for the 1982 Article IV Consultation with Vanuatu (SM/83/3, 1/3/83) noted the exchange rate policy pursued since September 1981 had proved successful in insulating the economy against imported inflation, and that despite the appreciation of the vatu the balance of payments had remained in surplus. At the conclusion of the consultation, the Executive Board was of the view that it would be necessary for the authorities to keep the exchange rate under continuing review, in the light of developments in the balance of payments. A mission will be visiting Port Vila shortly to conduct the 1984 Article IV consultation with Vanuatu, and an analysis of exchange rate developments and policies will be included in the consultation reports.

Attachment

TO: INTERFUND
WASHINGTON, D.C.

FROM: VATUBK NH
VANUATU

MARCH 11, 1984

THE CENTRAL BANK OF VANUATU HAS REVALUED THE VATU IN TERMS OF THE SDR WITH EFFECT FROM MONDAY 12 MARCH 1984. NEW RATE IS VATU 100.6 = SDR 1, REPRESENTING REVALUATION OF 5.57 PERCENT. ANNOUNCING THE DECISION MINISTER KALSAKAU EXPLAINED THAT THE MOVE WOULD COUNTER THE INFLATIONARY IMPLICATIONS FOR VANUATU OF THE RECENT DEPRECIATION OF THE VATU, PARTICULARLY IN RELATION TO THE AUSTRALIAN DOLLAR. HE EXHORTED BUSINESSES TO REINFORCE THE DECISION BY ALLOWING THE BENEFITS OF LOWER IMPORT COSTS TO BE REFLECTED IN REDUCED PRICES AND NARROWER PROFIT MARGINS.

PATRICK NOEL
GENERAL MANAGER
CENTRAL BANK OF VANUATU

Received in Cable Room: March 11, 1984