FOR
AGENDA

SM/85/278

CONTAINS CONFIDENTIAL
INFORMATION

October 7, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Vanuatu - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Vanuatu, which will be brought to the agenda for discussion on a date to be announced.

Mr. Niebuhr (ext. 7315) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

VANUATU

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Article IV Consultation with Vanuatu

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Tun Thin and Eduard Brau

October 4, 1985

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I. Introduction

The third Article IV consultation discussions with Vanuatu were held in Port Vila during July 22-August 5, 1985. The mission met with Mr. Kalpokor Kalsakau, Minister of Finance, Commerce, Industry, and Tourism; senior officials of government departments; Mr. Patrick Noel, Chief Executive Officer of the Central Bank of Vanuatu, and other senior staff members of the Bank; and representatives of the private sector. The staff team consisted of Messrs. Niebuhr (Head), Broadway, Di Calogero (all ASD), and Thornton (STA), with Mrs. Halfmann (BLS) as secretary.

Vanuatu has accepted the obligations of Article VIII, Sections 2, 3, and 4.

II. Background

Vanuatu comprises an archipelago of over 80 small islands with a land mass of 12,000 square kilometers and a population of about 130,000. The economy is open, with a large and unrestricted external sector; in 1984, combined exports and imports were estimated to have been equivalent to about 85 percent of GDP. The modern sector is heavily service-oriented, consisting of government services, tourism, the Finance Center (banking and tax haven service activities), some small industries, and plantation agriculture. The traditional sector, which accounts for 80 percent of the population but only 20-30 percent of GDP, consists of agriculture whose spectrum ranges from subsistence farmers to a growing group of smallholders engaged in substantial production of cash crops. The statistical base is weak, but estimates suggest a GDP of about VT 9.3 billion (SDR 91 million) in 1984, 1/ with a per capita GDP of SDR 730. Incomes in the traditional sector are judged to be about one third of the national average. Part of the disparity in income distribution reflects the high cost of expatriate services, which in the public sector are largely paid by grant assistance.

The land/labor ratio is favorable. Only about one-third of the country's arable land has been placed in agricultural use. In the traditional sector, people prefer subsistence farming to plantation employment. Labor is therefore the scarce resource and wages are relatively high. Limited internal transportation and the isolation of most village communities have restrained economic development as well as the provision of basic social and economic services. Because of a severe shortage of trained manpower, Government agencies suffer from limited organizational capacity, and the country experiences difficulties in absorbing development assistance.

1/ Technical assistance from the AsDB to establish a system for the estimation of national accounts began in mid-1985.

Vanuatu is heavily dependent on concessional foreign financial assistance to support the Government's recurrent and development expenditure. Since independence, France and the United Kingdom have provided budgetary support for recurrent expenditure, but on a declining basis and under an agreement that these grants would end no later than 1988. A major national goal is to attain financial self-reliance.

III. Recent Economic Developments

After a considerable setback in 1980 associated with the disturbances at independence, economic activity recovered, with real GDP estimated to have grown by 2 percent in 1981 and 1982 and 3 percent in 1983. In 1984, output expanded more rapidly, increasing at about 5 percent, mainly due to a 26 percent increase in the production of copra (the major export). The stimulus to greater production came from a large rise in world copra prices, and with it an increase in the domestic procurement price offered by the Vanuatu Commodities Marketing Board (VCMB). The performance of other important sectors in 1984 was mixed.

Personal consumption expenditure increased substantially in 1984, mainly due to the sharp increase in the incomes of copra producers, but also because of a 13 percent expansion in the public sector wage bill (4 percent in 1983). Private investment expenditure, in particular construction activity, also appeared to have increased. Development expenditure by the Government, however, was little changed from the 1983 level, while private investment in the agricultural sector continued to be hampered by the slow progress in obtaining rural leases.

Consumer prices in Vanuatu are largely determined by the price of impor[illegible] ation, as measured by the consumer price index, has been gener[illegible] rate in recent years with increases of 6 percent in 1982, 2 per[illegible] 1983, and 5.5 percent in 1984. The higher rate of inflation i[illegible] was mainly the result of tariff rate adjustments.

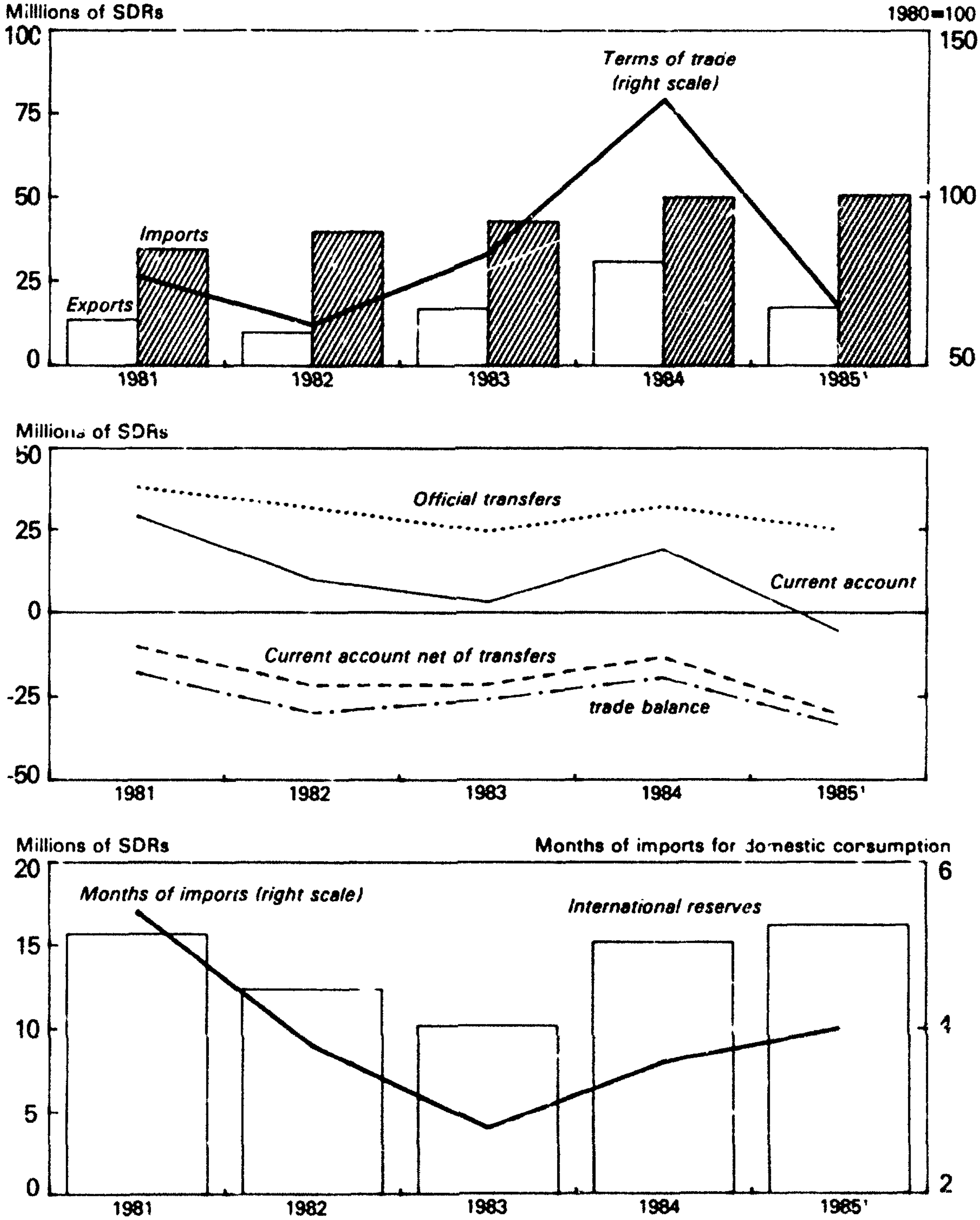
In November 1984, Parliament approved a law establishing a minimum monthly wage rate of VT 15,000 per month (approximately $150). In response, two government/joint venture estates suspended operations and, in the country as a whole, about 1,200 jobs were reported lost. In May 1985, the law was amended to create a Minimum Wage Board to determine the minimum pay for the various sectors of the work force; it has set a floor wage of VT 7,000 per month.

Vanuatu's balance of payments is characterized by large deficits on merchandise trade which have been more than offset by net earnings from services (mainly tourism), official transfers, and capital inflows (Table 1 and Chart 1). As a result, in the period from independence through 1984, the country achieved both current and overall balance of payments surpluses, resulting in the accumulation of substantial net foreign assets in the banking system.

CHART 1

VANUATU

BALANCE OF PAYMENTS INDICATORS, 1981-85



Source: Data provided by the Vanuatu authorities and staff estimates.
[1]Projections.

Table 1. Vanuatu: Balance of Payments, 1982-85

(In millions of SDRs)

	1982	1983	1984	1985
Trade balance	-29.9	-25.8	-19.2	-33.5
Exports (f.o.b.)	9.7	16.8	30.8	17.1
Of which: copra	(6.7)	(12.3)	(26.0)	(13.0)
Imports (f.o.b.)	39.6	42.6	50.0	50.6
Of which: for home consumption	(35.9)	(40.2)	(47.1)	(47.5)
Sources and transfers (net)	39.8	29.0	38.2	28.1
Services (net)	0.9	-1.1	-0.6	-3.3
Receipts	38.4	40.6	48.1	41.9
Of which: inward travel	(19.3)	(20.7)	(23.2)	(17.6)
Payments	37.5	41.7	48.7	45.2
Of which: investment income	(4.8)	(11.3)	(11.4)	(10.0)
Private transfers (net)	7.4	5.6	6.8	6.5
Official transfers (net)	31.5	24.5	32.0	24.9
Current account balance	9.9	3.2	19.0	-5.4
Current account balance excluding official transfers	(-21.6)	(-21.3)	(-13.0)	(-30.3)
Nonmonetary capital	5.9	7.7	8.8	11.0
Long-term capital	2.5	12.2	8.6	11.0
Official	1.4	0.3	0.7	2.8
Of which: disbursements	(1.7)	(0.6)	(1.1)	(3.0)
Private	2.7	11.9	7.9	8.2
Of which: reinvested earnings	(1.0)	(6.7)	(5.6)	(5.1)
Short-term capital	1.8	-4.5	0.2	--
Errors and ommissions	0.4	5.6	11.8	--
Overall balance	16.2	16.5	39.6	5.6
Change in net foreign assets (increase -)	-16.2	-16.5	-39.6	-5.6
Monetary authorities (net)	(3.4)	(2.2)	(-5.4)	(-1.5)
Commercial banks (net)	(-19.6)	(-18.7)	(-34.2)	(-4.1)
Memorandum items:				
Current account/GDP ratio	13.4	4.1	20.5	-6.1
Current account/GDP ratio excluding official transfers	-28.6	-27.0	-14.1	-35.0
Total debt outstanding (SDPs)	3.7	3.5	3.0	6.5
Debt service ratio	5.2	3.0	1.9	2.6
Vatu/SDR (average)	106.2	106.2	101.7	107.7

Sources: Data provided by the Vanuatu authorities; and staff estimates.

Vanuatu's export performance improved substantially between 1982 and 1984. The value of exports (in SDR terms) rose by 73 percent in 1983 and by 83 percent in 1984 to a record SDR 31 million. However, virtually all of the increase in exports was due to larger copra earnings, which comprised 84 percent of total exports in 1984. Buoyant world prices for copra accounted for most of the gains, although export volume rose by 11 percent and 21 percent, respectively, in 1983 and 1984. The quality of copra production has also improved as a result of government efforts to improve storage facilities, replace smoke drying with the hot air drying process, and establish quality-based procurement price differentials.

Imports satisfy the bulk of monetized domestic demand. The value of imports (in SDR terms) rose by nearly 18 percent in 1984 (8 percent in 1983) to SDR 50 million. Contributing factors to this rapid expansion included much higher personal income, particularly in rural areas, generally buoyant investment activity in urban areas, and an expansion in tourism expenditures.

The current account surplus in 1984 increased sharply to SDR 19 million (20 percent of GDP), compared to only SDR 3 million (4 percent of GDP) recorded in 1983. This improvement was largely the result of a SDR 7 million reduction in the trade deficit and a SDR 6 million rise in official transfers. About half of the increase in transfers reflected STABEX grants and the U.K. contribution to a compensation fund, to meet claims arising from the 1980 civil disturbances, and were not a part of the continuing flow of assistance. Net services played only a small role in the overall outcome as increased tourist earnings were offset by larger service payments. There was a SDR 1 million gain on net private transfers, mainly owing to increased local expenditure by expatriates under technical assistance programs.

Identified capital account transactions include relatively small amounts of official long-term capital, sizable inflows of direct private capital, in most part reinvestment of earnings, and miscellaneous short-term capital items. Identified nonmonetary capital inflows in 1984 amounted to SDR 9 million, compared to SDR 8 million in 1983. As measured by monetary survey statistics, the overall balance recorded a striking surplus of SDR 39 million in 1984. The net foreign asset position of the monetary authorities (including their foreign exchange deposits with domestic commercial banks) increased by SDR 5.4 million to SDR 15.6 million at the end of 1984. The net foreign assets of the commercial banks (excluding those attributable to the monetary authorities' holdings of foreign assets noted) increased by SDR 34.2 million to SDR 78.9 million at the end of the year.

The vatu has been pegged to the SDR since September 10, 1981. In an attempt to contain pressures on domestic prices emanating from abroad, the vatu was revalued by 5.6 percent to SDR 1 = VT 100.6 on March 12, 1984. Between April 1984 and March 1985, the vatu appreciated by 18 percent in nominal terms and 15 percent in real terms. Effective April 1, 1985, the vatu was devalued by 8.5 percent to SDR 1 = VT 110 in response to less favorable external circumstances (Chart 2).

The outstanding public external debt, incurred in part before independence, amounted to about SDR 3.9 million at the end of 1984, when debt service payments were 2 percent of merchandise exports. Since independence, the Government has negotiated about SDR 11 million in new loans mainly to supply resources to the Development Bank of Vanuatu and for agricultural projects; the bulk of these funds remain undisbursed. 1/ The terms of loans have been highly concessional.

Monetary developments have been dominated by the movements in the balance of payments, and growth in total liquidity in recent years has expanded at rapid rates, reflecting the large overall surpluses achieved (Table 2). The authorities' balanced budget policy has meant that the Government has not been a sustained force to expand domestic credit and credit to the private sector has been relatively moderate owing to restraints on investment. In 1984, credit to the private sector grew by only 0.2 percent, however, consumer loans fell markedly while loans for construction expanded rapidly. For the year, total domestic credit declined by 21 percent, reflecting the large overall budgetary surplus achieved. The economy has been characterized by high levels of private financial savings, reflected in the rapid growth of quasi-money deposits which now account for about 80 percent of total liquidity. These deposits are largely denominated in foreign currency and, given the open system, earn internationally competitive rates.

IV. Report on the Discussions

The discussions focused on the recent unfavorable changes in economic circumstances and on the budgetary situation, especially with respect to the public sector wage bill. In addition, reflecting Executive Directors' interest expressed during the 1984 consultation discussions, the land tenure problems and the large share of the budget required for education were examined. Drafting of the Second National Development Plan (1987-91) was not sufficiently advanced for detailed discussions. However, the staff has prepared a medium-term scenario for the balance of payments and external debt as background for assessing development policies.

The Government intends, with the cooperation of the IBRD, to hold an aid donors' conference in mid-1986 to discuss the Second National Development Plan (1987-91).

1/ Valuation adjustments on account of exchange rate adjustments have reduced the SDR value of outstanding debt by SDR 1.5 million over the past four years.

Table 2. Vanuatu: Monetary Survey, 1981-85

(In millions of vatu)

	1981	1982	1983	1984 March	1984 June	1984 Sept.	1984 Dec.	1985 March	1985 June
Net foreign assets	2,361	4,081	5,830	7,090	7,685	9,172	9,508	9,754	10,619
Of which: commercial banks 1/	1,589	3,457	5,180	6,463	7,040	8,488	8,692	8,958	9,662
Domestic credit	1,818	2,371	2,875	2,554	2,432	2,350	2,264	2,462	2,688
(12-month percentage change)	(13.3)	(30.8)	(21.3)	(10.8)	(-13.8)	(-9.1)	(-21.3)	(-3.6)	(24.1)
Government (net)	-1,322	-881	-685	-1,267	-1,159	-1,221	-1,264	-1,238	-1,211
Public enterprises	--	--	68	3	2	2	30	35	85
Private sector	3,135	3,252	3,492	3,818	3,589	3,569	3,498	3,665	3,814
(12-month percentage change)	(18.5)	(3.7)	(7.4)	(15.0)	(1.9)	(9.4)	([illegible])	(-4.0)	(6.3)
Other items (net)	412	554	876	1,351	1,320	1,276	1,194	1,440	[illegible],980
Total liquidity	3,762	5,898	7,829	8,293	8,797	10,246	10,578	10,776	10,327
(12-month percentage change)	(-20.0)	(56.8)	(32.7)	(65.6)	(54.0)	(41.0)	(35.1)	(29.9)	(17.4)
Money	1,266	1,470	1,840	1,719	1,872	1,961	2,134	2,181	2,159
Quasi-money	2,496	4,428	5,989	6,574	6,925	8,285	8,444	8,595	8,168
				(In percent per annum, end of period)					
Memorandum items:									
Deposits									
(3 months) 2/									
Vatu	8.75-10.75	8.00-10.50	8.00-9.50	8.25-9.25	7.00-9.50	6.50-[illegible].75	6.75-8.75	7.50-8.00	7.00-8.50
Australian dollar	--	12.50	7.50	11.25	11.63	9.63	10.75	14.00	15.00
Euro-dollar	--	10.00	10.50	10.75	11.75	11.00	10.38	8.94	7.69

Source: Central Bank of Vanuatu.

1/ Includes net claims on exempt banks and other offshore financial institutions.

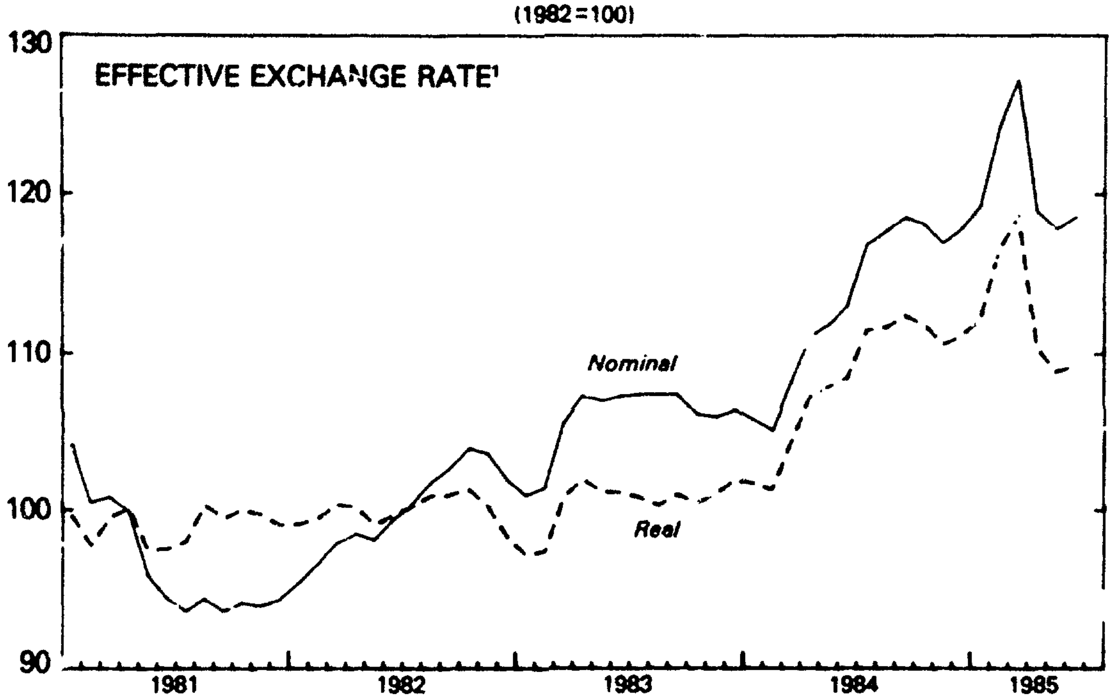
2/ Rates quoted in Vanuatu.

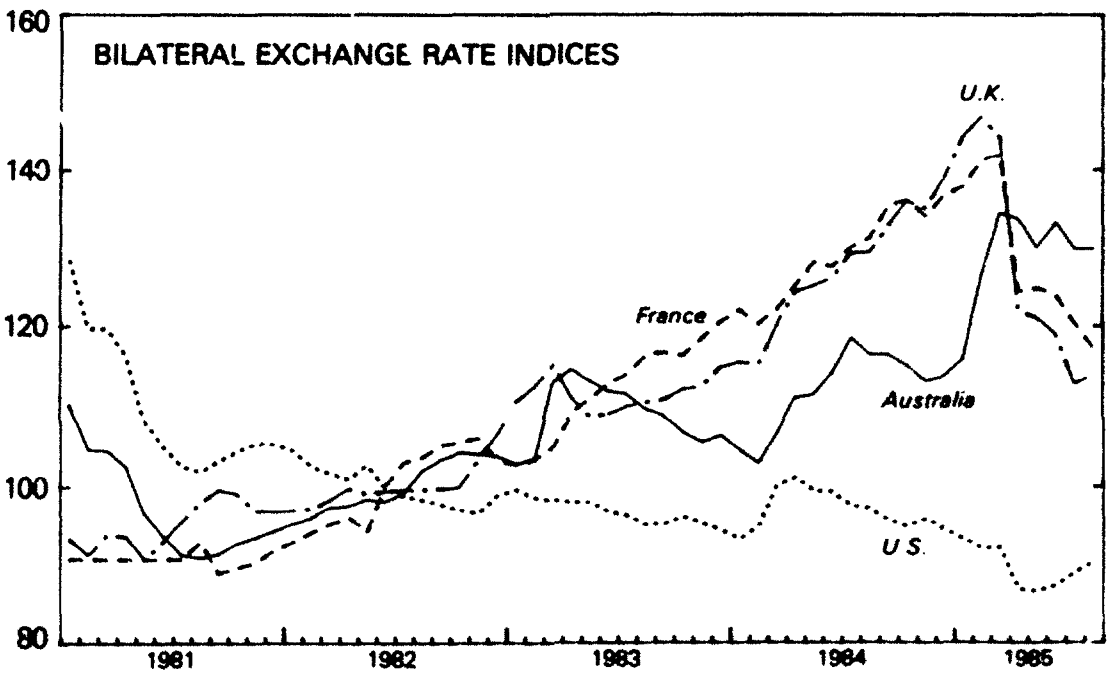
CHART 2

VANUATU

EFFECTIVE EXCHANGE RATE INDICATORS, 1981-85

(1982=100)





Source: *International Financial Statistics*, IMF

[1] Trade-weighted notification index. An increase represents an appreciation.

1. Developments in 1985 and the immediate outlook

In January 1985, two severe cyclones struck much of the northern half of the country and copra production was expected to fall by 20-25 percent this year. At the same time, world prices for copra were falling more sharply than had been anticipated; the June 1985 price of $375 per metric ton was less than half the level prevailing a year earlier, and a further weakening seemed likely. Further, tourist arrivals in the first half of 1985 fell 23 percent from the level for the corresponding period in 1984. Thus, it seemed likely that real GDP would fall by about 3 percent in 1985. Moreover, cyclone-related revenue losses and additional expenditures required for relief and rehabilitation threatened to create a fiscal gap equivalent to 5 percent of GDP.

Decisive policy actions have been taken by the authorities: an 8.5 percent devaluation of the vatu was effected in April 1985, and an "austerity budget" was adopted in May. Nevertheless, there continued to be concerns that expansion of aggregate domestic demand might be proceeding at a faster pace than desirable, thus putting increased pressure on the balance of payments.

Inflation is not anticipated to accelerate in 1985 despite the exchange rate adjustment in April. Distributors and retailers are expected to absorb much of the exchange rate adjustment in their profit margins given that margins were increased by the March 1984 revaluation and that economic activity is slowing down. During the first half of 1985, the consumer price index was only 1.3 percent above the comparable period in 1984. Taking into account possible delays in passing on the exchange rate adjustment, the rate of inflation for the year as a whole is not likely to exceed 3-4 percent.

Total exports are estimated to decline to SDR 17 million in 1985 from SDR 31 million in 1984, while imports are expected to be close to the 1984 outturn of SDR 50 million. Accordingly, the trade deficit is forecast to increase sharply to SDR 33 million. The surplus on services and transfers is projected to decline by SDR 10 million to SDR 28 million, due to a SDR 6 million (24 percent) decline in tourist earnings and a fall in official transfers of about SDR 7 million. Based on these projections, the current account is expected to record a deficit of SDR 5 million (6 percent of GDP) which, if realized, would be the first current account deficit since independence.

Official long-term capital inflows are expected to increase to SDR 3 million in 1985, reflecting some quickening of the pace of project implementation. Net private capital inflows are expected to be slightly greater than in 1984, as projected new inflows offset reduced profits and profit retention by established firms. In all, recorded capital inflows of SDR 11 million are projected; thus, the overall balance of payments is projected to remain in surplus at a level of about SDR 6 million.

2. Medium-term outlook and policies

Vanuatu's economic potential lies for the most part in export-oriented agriculture (tree crops and cattle) and in tourism. Forestry and fishing will also make a contribution but their resource base is relatively limited. Table 3 seeks to broadly quantify likely trends in the balance of payments and external debt through 1990. The projections for exports are consistent with the authorities' outlook, while the assumed expansion of imports was held to the minimum necessary to allow moderate growth.

The purpose of the above exercise was to develop a set of plausible values to guide current thinking and policy efforts. The results show a steady and fairly rapid increase in the current account deficit to SDR 20 million by 1990. At that time, outstanding debt would amount to SDR 35 million, or 43 percent of the total of export and service receipts (SDR 81 million), as compared to 5 percent at the end of 1984. However, there would be little amortization of new contracted debt because of the grace period involved and, since all new debt will be on highly concessional terms, debt service would amount to only 5 percent of exports.

The exercise underscores the urgency of accelerating the implementation of the Government's development policies. These policies include: the need to rehabilitate existing plantation and cattle operations which are in decline for lack of investment and are operating at well below potential; the need to foster a better understanding of the investment climate and to induce new investment in foreign exchange earning enterprises; the need to attract larger amounts of foreign capital and entrepreneurship; 1/ the need to limit current budget expenditure and promote efficiency in government; and the need to utilize only highly concessional loan assistance.

3. Fiscal policy

Total government expenditure amounts to about one half of GDP, with foreign grants providing 50 percent of government revenue. 2/ Fiscal

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1/ Foreign investment is welcomed on an individual basis or in joint ventures with Government. Three large government joint ventures form the core of directly productive projects. The projects are the Tanna Nucleus Coffee Estate, the Mentenesel Cocoa Plantation, and the South Santo Cattle Project. The first two are under construction and are joint ventures with the Commonwealth Development Corporation. The latter is in an advanced stage of preparation and is being undertaken with private interests.

2/ An overall picture of the budget (Table 4) was estimated by the staff by integrating the recurrent budget with development expenditure (both the Development Fund and assistance in kind), technical assistance, and two large special funds.

Table 3. Vanuatu: Medium-term Projections of the Balance of Payments and Public External Debt, 1985-90

(In millions of SDRs)

	1985 Est.	1986	1987	1988	1989	1990
		Projections				
Trade balance	-33.5	-35.8	-37.0	-40.6	-44.0	-46.6
Export, f.o.b.	17.1	17.7	20.7	21.8	23.3	26.1
Imports, f.o.b.	50.6	53.5	57.7	62.4	67.3	72.7
Of which: for home consumption	47.5	50.3	54.3	58.6	63.3	68.4
Services and transfers (net)	28.1	29.5	28.2	28.5	27.0	26.7
Services (net)	-3.3	-0.8	-0.3	--	-0.1	-0.4
Receipts	41.9	46.1	48.5	50.9	53.0	55.1
Of which: inward travel	17.6	21.0	22.5	24.0	25.7	27.5
Payments	45.2	46.9	48.8	50.9	53.1	55.5
Of which: investment income	10.0	10.3	10.8	11.3	11.9	12.5
Private transfers (net)	6.5	6.6	6.8	7.0	7.2	7.4
Official transfers (net)	24.9	23.7	21.7	21.5	19.9	19.7
Current account balance	-5.4	-6.3	-8.8	-12.1	-17.0	-19.9
Current account balance excluding official transfers	-30.3	-30.0	-30.5	-33.6	-36.9	-39.6
Nonmonetary capital (net)	11.0	10.9	11.9	12.9	13.9	14.9
Long-term capital	11.0	10.9	11.9	12.9	13.9	14.9
Official	2.8	3.7	4.7	5.7	6.7	7.7
Of which: loan disbursements	3.0	4.1	5.2	6.3	7.1	8.?
Private	8.2	7.2	7.2	7.2	7.2	7.2
Short-term capital	--	--	--	--	--	--
Errors and omissions	--	--	--	--	--	--
Overall balance	5.6	4.6	3.1	0.8	3.1	-5.0
External debt	6.6	10.3	15.0	20.7	27.4	35.1
Debt service	0.71	0.84	1.06	1.23	1.34	1.50
Interest (old debt)	0.21	0.22	0.23	0.24	0.22	0.21
Interest (new debt)	0.08	0.19	0.33	0.50	0.71	0.94
Amortization	0.42	0.43	0.50	0.49	0.41	0.35
Debt service ratio 1/	4.0	4.8	5.1	5.6	5.8	5.8

Source: Staff estimates.

1/ With respect to merchandise exports.

Table 4. Vanuatu: Summary of Central Government Fiscal Operations, 1981-85

(In millions of vatu)

	1981	1982	1983	1984		1985	
	Actuals			Budget	Actual	Budget	Estimate
Total revenue and grants	5,303.7	4,957.1	4,493.6	4,963.6	5,759.0	5,539.0	5,412.0
Revenue	1,369.6	1,607.4	1,892.4	2,208.0	2,503.4	2,769.0	2,727.0
Tax	1,019.5	1,264.9	1,467.9	1,796.0	2,037.4	2,308.0	2,202.0
Nontax	350.1	342.5	424.5	412.0	466.0	461.0	525.0
Foreign grants	3,934.1	3,349.7	2,601.2	2,755.6	3,255.6	2,770.0	2,685.0
Recurrent	899.1	743.2	559.4	490.0	436.9	370.0	285.0
Technical assistance	1,635.0	1,497.0	1,050.0	900.0	1,270.0	1,300.0	1,300.0
Development	985.0	1,078.5	991.8	1,000.0	1,041.0	1,100.0	1,100.0
STABEX and other	415.0	31.0	--	365.6	507.7 1/	--	--
Total expenditure	4,739.4	5,295.4	4,550.3	4,780.7	5,228.2	5,478.0	5,442.0
Recurrent	2,042.6	2,327.0	2,419.1	2,648.8	2,657.9	3,078.0	3,042.0
Of which: wages	(1,170.8)	(1,305.5)	(1,361.8)	(1,627.5)	(1,543.8)	(1,775.0)	(1,749.0)
Technical assistance	1,635.0	1,497.0	1,050.0	900.0	1,270.0	1,300.0	1,300.0
Development	1,046.8	1,071.4	1,081.2	1,000.0	1,058.4	1,100.0	1,100.0
In cash	(504.8)	(423.4)	(536.2)	(...)	(518.4)	(...)	(500.0)
In kind	(542.0)	(648.0)	(545.0)	(...)	(550.0)	(...)	(600.0)
Other 2/	15.0	400.0	--	231.9	231.9	--	--
Overall surplus or deficit (-)	564.3	-338.3	-56.7	182.9	452.8	61.0	-30.0
Financing	-564.3	338.3	56.7	-182.9	-452.8	-61.0	30.0
Foreign (net)	-23.0	-26.0	-21.0	-33.0	-18.7	23.6	23.6
Borrowing	(--)	(--)	(--)	(--)	(8.7)	(55.0)	(55.0)
Repayments	(-23.0)	(-26.0)	(-21.0)	(-33.0)	(-27.4)	(-31.4)	(-31.[illegible])
Domestic (net) 3/	-541.3	364.3	77.7	-149.9	431.4	84.6	6.4
Bank 4/	(-768.0)	(435.0)	(189.0)	(...)	(-566.0)	(...)	(...)
Nonbank 5/	(226.7)	(-70.7)	(-111.3)	(...)	(131.9)	(...)	(...)
Memorandum item:							
Overall deficit (-) excluding foreign grants	-3,369.8	-3,688.0	-2,657.9	-2,572.7	-2,724.8	-2,709.0	-2,715.0

Sources: Data provided by the Vanuatu authorities; and staff estimates.

1/ Comprises grants received from STABEX, however, the 1984 outcome includes VT 142 million U.K. grant to the civil disturbance claims fund.
2/ Comprises transfer of funds received from STABEX to the Vanuatu Commodities Marketing Board.
3/ Residual.
4/ Changes in net claims on the Government as defined in the monetary survey tables.
5/ Estimated as a residual. Includes contra-entry for changes in net deposits of certain special funds, sundry net creditors, and adjustment for timing differences.

policy aims at balancing the recurrent budget by containing the growth of expenditure while widening the tax base to offset the phased reduction of support grants. Substantial success has been achieved: budgetary grants have fallen from the equivalent of half of current expenditure in 1980 to an estimated 9 percent in 1985; domestic revenues have increased at an annual rate of nearly 17 percent allowing recurrent expenditure to grow by nearly 9 percent annually; and, on balance, a net budgetary surplus has been attained. Nevertheless, a large structural adjustment problem remains, as grants finance nearly all of development expenditure and very large amounts of technical assistance continue to be required. Since the domestic tax effort, being roughly 20 percent of GDP, is not unusually low, the adjustment must focus on strict economy and improved efficiency in the provision of public services, and on fostering a more rapid expansion in the economic base.

The budget outcome in 1984 was highly favorable (Table 4). An exceptionally large surplus of VT 453 million was achieved in the overall budget, of which VT 184 million came from the recurrent budget. Domestic revenue grew by 32 percent, some 13 percent above budget estimates, while recurrent expenditure was kept to the budgeted level. The balance of the overall surplus was further strengthened by a part of the STABEX grant set aside in a special fund, 1/ and by the U.K. grant contribution of VT 142 million for the tripartite fund set up to meet claims arising from the 1980 civil disturbances.

As a result of the cyclones in January 1985, the Government faced the prospect of losses of revenue of VT 500 million and additional expenditures needed for relief and rehabilitation. 2/ Confronted with this outlook, the authorities undertook to cut previously planned expenditure by about 7 percent (VT 207 million) so as to reduce the prospective deficit. No new taxes were introduced in the revised budget so as not to burden the private sector in view of the economic slowdown. Mid-year projections for the 1985 budget outcome indicate a much smaller revenue loss than had been feared after the cyclones, better-than-budgeted performance with respect to certain tax and nontax revenue items, and the success of the authorities' effort to contain expenditure. Accordingly, for the year as a whole, the staff estimates the overall deficit to be VT 30 million, essentially reflecting budgeted use of development loans. Thus, for 1985 no reliance on the banking system is expected.

In the discussions, the mission expressed its concern that the public sector wage bill had increased by about 13 percent in 1984. A similar rise was expected in 1985 and continued pressure for wage

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1/ The balance of the grant was passed on to the VCMB to build up the stabilization fund, which is a nongovernmental account.

2/ Emergency relief aid was also provided by donors outside the budget; long-term rehabilitation needs are to be addressed in connection with the program for the Development Fund.

increases is anticipated. Three factors appear to be responsible for the expansion: an increase of about 4 percent a year in the number of staff employed, some cost-of-living adjustments, 1/ and very substantial wage creep. The authorities agreed that wage creep was indeed a problem. In an attempt to address this issue, a new salary structure was introduced in January 1985, along with the implementation of a government-wide job evaluation exercise which had been carried out with ILO assistance. Hiring freezes had been in effect for the first six months of 1984 and 1985. The authorities explained that the replacement of expatriate staff provided under technical assistance and the need to improve the implementation capability of the Government had put pressure on the wage bill.

At the time of the mission's visit, the formulation of the 1986 budget was in its initial stages. From discussions, it was readily apparent that considerable pressures existed to expand recurrent expenditure. These included wage increases, the costs of implementing a proposed Provident Fund, housing allowances for civil servants, and as much as a 30 percent increase in education expenditure, 2/ mainly for the expansion of secondary schooling and the abolition of primary school fees. Prospects for expanding revenue were not bright, in part due to falling copra prices and uncertainty over tourist earnings. In this situation, the mission urged the authorities to estimate a realistic target for revenue and then to establish expenditure priorities so as to balance the recurrent budget. The mission noted that the Government's sound financial policies had stabilized the disrupted economic situation that had prevailed just after independence and these policies had led to substantial economic progress. Continued fiscal discipline was clearly essential for sustaining the development effort.

With respect to the proposed Provident Fund, the mission observed that the employers' contribution 3/ to the Provident Fund would represent an increase in overall remuneration and it was hoped that employees would recognize this. In the public sector, if wages were raised to compensate for the loss of disposable income, the establishment of the Fund would represent a serious setback to the Government's efforts to maintain a viable budgetary position.

Increased collection of import duties has provided the principal source of new domestic revenues and account for over 60 percent of tax

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1/ A 4 percent adjustment in scale was given to junior grades (1-10) in July 1984 and a 3 percent adjustment was granted to senior grades (11-21) in July 1985.

2/ The education budget proposals alone would expand recurrent expenditure by 7 percent.

3/ The exact modalities of the Provident Fund have not yet been decided; equal employer/employee contributions equivalent to 5 percent of wages have been discussed. The Provident Fund will cover parts of the private sector as well as the Government.

revenue. The mission observed that, with the comprehensive revisions of the tariff structure adopted in January 1985, most rates are now pitched at levels that are near the maximum for revenue-raising purposes. Yields could be improved somewhat by the new computerized customs procedures and through innovations such as "the Port Vila downtown duty-free system," but the rate of expansion from this source will largely reflect growth of imports. The staff noted that although new ad hoc measures could be found to secure revenue growth for 1986, the basis for securing strong revenue expansion for future years was not at all clear. Since the authorities believe that it is still premature at the present stage of development to adopt some form of income tax, the staff observed that new revenues would probably have to come from sales taxes on certain goods and services. Such taxes, however, would need to be carefully designed so as not to be inequitable and not to discourage productive activity.

The Government devotes about one quarter of its current budget to education, a much higher proportion than in comparable neighboring countries. The need for education is clearly great given the lack of trained manpower. However, since the population is widely dispersed, primary schools have had to be set up in small isolated communities; as a legacy of the Condominium, French and English education systems coexist, sometimes competing for students in the same area; further, nearly 40 percent of the primary school teachers are untrained. These factors have been largely responsible for the excessively low pupil/teacher ratios and for the correspondingly high education unit costs. 1/

Vanuatu's education and manpower requirements have been the subject of a recent World Bank study which, however, could offer only medium- to long-term solutions. 2/ It recommended improved use of existing resources through better planning, upgrading of teaching skills, and creating one curriculum for the English- and French-medium streams. Meanwhile, the Government finds itself under mounting public pressure to take immediate steps to improve education opportunities, for example by abolishing primary school fees and increasing the number of secondary schools. Although education opportunities, particularly at the secondary level, must be improved if long-term development is not to be hindered, the Fund staff pointed out that large amounts of recurrent resources are not available to expand the education system unless either expenditures are reallocated or additional grants and technical assistance are forthcoming from aid donors to cover the recurrent costs.

1/ For further details, please refer to the Annex on Education in the Recent Economic Developments report to be issued shortly.

2/ Vanuatu Education and Training Sector Report, IBRD Report No. 5217-VAN, issued February 28, 1985.

4. External policy

The authorities stated that exchange rate policy was guided by the need to encourage development and diversification in the export sector, but yet to shield the domestic economy against undue imported inflation. Further, an explicit exchange rate peg had been decided upon to instill confidence in the currency following the introduction of the vatu; the SDR had been chosen as the peg because of the clarity and operational simplicity of the arrangement. Only two adjustments in the SDR parity have taken place. The first was a revaluation on March 12, 1984 which, as noted earlier, was primarily intended to contain pressures on domestic prices emanating from abroad. The second adjustment was made on April 1, 1985 when the authorities devalued the vatu by 8.5 percent. Although in the intervening period copra earnings in vatu had gained from the appreciating U.S. dollar, the authorities explained that they had become fearful of possible harmful impact of the appreciation of the real effective vatu exchange rate on secondary exports and tourism.

The staff commended the decision to devalue in April 1985 and expressed the view that exchange rate policy should respond to underlying balance of payments developments and export profitability rather than to short-term fluctuations in the terms of trade. In this respect, it was pointed out that the devaluation still left the effective exchange rate about 10 percent higher in real terms than the average level prevailing from independence until the revaluation in early 1984. In this connection, the staff observed that the vatu had recently appreciated sharply against the Australian dollar and, as Australia accounts for the bulk of tourism receipts, Vanuatu's competitive position needed to be watched closely. The staff also pointed out that several factors were likely to adversely affect the balance of payments in coming years. These included the poor outlook for copra prices, the time that it would take before the important efforts being made to diversify the agricultural export base would bear fruit, and anticipated declines in foreign grant assistance. In this context, the staff stressed the appropriateness of greater flexibility in exchange rate policy. The authorities agreed that developments in the external sector and the exchange rate needed to be monitored closely. Their evaluation suggested that Vanuatu was competitive with nearby tourist destinations.

The Vanuatu Commodities Marketing Broad (VCMB) accumulated substantial reserves during the copra price boom. However, when the world price of copra fell sharply after mid-1984, the VCMB continued to make two further upward adjustments in its procurement price, the last being in November 1984. By the middle of 1985, the world copra price had declined to such a level that the VCMB's procurement price offered producers an effective subsidy of about 50 percent. Although this policy had done much to maintain domestic incomes, the staff pointed to three strong reasons favoring a substantial reduction in the procurement price. First, at the mid-1985 rate of subsidy, the reserves of the VCMB would be exhausted in less than 18 months. Second, no substantial increase in the world copra price was in prospect on current projections. Finally, a reduction in the procurement price would help moderate the demand for imports and help alleviate the growing pressure on the balance of payments. Subsequently, the authorities have informed the staff of a reduction in the VCMB's procurement price which reduces the effective subsidy by about 30 percent.

5. Monetary policy

The authorities explained that, due to insufficient numbers of trained staff at the Central Bank, the development of its operations and policy instruments had been limited. The policy measures taken by the Central Bank since its establishment have necessarily been restricted to issuing guidelines relating to the maximum level of commercial banks' lending rates for productive projects (currently 12-14 percent), the maximum spread between the banks' average vatu lending and deposit rates, and the sectoral composition of bank lending. In February 1985, the Central Bank removed a guideline limiting the spread between average lending and deposit rate to 4.5 percent because of the obvious difficulties that the banks were having in complying with it.

The staff noted that the present limited capacity of the economy to absorb domestic financial resources was due to restricted domestic investment opportunities. This had contributed to the large spread between commercial banks' average lending and deposit rates, which was a source of concern to the authorities. It had created a situation in which the commercial banks had no great incentive to bid aggressively for vatu-denominated deposits because of the difficulty they had in making sound vatu loans.

The staff stressed the importance of augmenting the capabilities of the Central Bank by building up its armory of policy instruments, especially since a less favorable balance of payments picture was emerging and demand for credit was likely to strengthen over time. In the absence of policy instruments, the staff emphasized the present crucial role to be played by the budgetary position and by the copra procurement price administered by the VCMB. The authorities agreed with this assessment.

The authorities also agreed that additional policy instruments were required. 1/ It was hoped that the Central Bank would be in a position to assume the role of banker to the Government, and of manager of the country's foreign exchange reserves, before the end of 1986. In addition, the first issue of Government bonds had been planned for December 1985 as a means of augmenting the range of vatu financial instruments available for investors; further issues of government bonds were likely

1/ The Central Bank assumed the clearing house function in August 1985.

in 1986. The proceeds from the bond issues would accrue to the Development Fund.

The authorities indicated that there had been a satisfactory resolution of a disagreement between the Central Bank and Banque Indosuez (Vanuatu) that had arisen at the time of the 1984 revaluation. The dispute concerned compensation due the latter with respect to its functions in managing the country's exchange reserves. Payment of compensation at the time of the April 1985 devaluation had been carried out smoothly.

6. Land tenure and investment

A major impediment to improving the poor investment record in recent years, particularly in the agricultural sector, has been the delay and difficulty in securing a duly executed and registered lease for rural land. The new Constitution declared, in effect, that the colonial land titles were void and that only the descendants of the original Ni-Vanuatu owners could hold title to land. Decisions relating to land ownership were to be resolved in accordance with "custom," that is, the traditional values and practices of the community. The authorities explained that since independence a new procedural and legal framework had been created to provide for the registration of leasehold land titles and other interests, such as subleases and mortgages for land in rural areas. However, the staff noted that the question of original ownership has become the prominent issue and much of the developed or potentially valuable rural land was still under dispute. 1/ An official system of Island Courts was set up in 1983 to adjudicate on land and other matters in accordance with the principles of "custom." Unfortunately, most Island Court land decisions have been appealed to the Supreme Court (in Port Vila), where the great majority are still pending.

Where land is disputed, the Minister of Lands has the authority to intervene and execute leases on behalf of the custom owners, placing the rental income in trust until the question of ownership is resolved. Up to now, the Minister has only taken this step with the consent of the competing claimants, in view of the extreme sensitivity of land issues. With relatively large areas of land under dispute, investment opportunities critical to economic development are being lost. After four years of effort spent in enacting a workable legislative and administrative framework, it is apparent that some hard decisions will need to be taken within the new legal framework if the land question is to be resolved. This is a necessary prerequisite to raising investment levels and expanding the productive base of the economy.

1/ By mid-1985 only 200 rural leases had been executed while the Condominium authorities had granted about 1,200 private land titles. See the section on Land Tenure in the Recent Economic Developments report to be issued shortly.

The authorities stated that they were taking two steps to reduce foreign investor uncertainties. They were formulating an Investment Law which would detail the conditions under which foreign investment would be welcome in Vanuatu and the benefits which could accrue to investors. In addition, in qualified cases, residency permits would only need to be renewed every five years for investors and every three years for expatriate employees, instead of annually.

V. Staff Appraisal

The economy of Vanuatu is characterized by high transport costs, weak infrastructure, and fragmented markets. The traditional economy based on subsistence agriculture contrasts sharply with the modern sector. Vanuatu's relatively rich agricultural resources remain substantially untapped due to land tenure problems. Investment in other sectors has been constrained by a lack of trained indigenous manpower and the uncertainties of foreign investors about the renewal of residency and work permits for their expatriate staff. Export receipts come primarily from copra, and thus are highly volatile. Aid flows are of great importance, both for the budget and the balance of payments. The large size of the public sector--a legacy of the pre-independence period--exceeds the country's ability to support it.

Despite these obstacles, the authorities have made considerable progress in the five years since independence. Growth has been satisfactory while the rate of inflation has moderated. The overall balance of payments has been in surplus, leading to a buildup in reserves, and the external debt burden has remained negligible. The recurrent budget has been kept in approximate balance, with a marked rise in the Government's domestic revenues.

In the near term, some pressures can be anticipated both in the domestic economy and on the balance of payments. On the external side, the decline in the world price of copra in 1985 and the sharp fall in tourist earnings substantially reduce the prospects for foreign exchange receipts. At the same time, imports are not expected to contract as domestic incomes have been maintained at a relatively high level. Thus, a sharp widening in the trade deficit is in prospect, and in 1985 the first current account deficit since independence. The weakness is likely to persist into 1986, though capital inflows appear sufficient to cover the present imbalance. On the domestic side, the Government faces a difficult task in formulating the budget for the coming year. Considerable pressures exist for a sharp expansion in expenditure, particularly for social benefits, while revenues are not expected to be buoyant.

Thus, firm corrective action is appropriate to strengthen Vanuatu's external position, especially in view of the medium-term trends. While the staff commends the authorities for the implementation of an austerity budget in 1985, which has obviated the need for bank financing, it would stress that continued restraint in the fiscal field is necessary in the period ahead. The decision to adjust the exchange rate in April 1985 and the intention to maintain a flexible exchange rate policy are to be welcomed, but the staff would urge that the rate be kept under review to assure adequate financial incentives to the traded goods sector. The recent adjustment of the copra procurement price is also important. However, the staff believes further adjustments will be necessary to conserve the stabilization fund resources so as to better assure maintenance of remunerative producer prices over the full price cycle, and more immediately, to moderate pressures on the current account balance.

Over the medium term, the Government faces serious challenges to achieving the structural adjustment required in three interrelated areas: (1) attaining greater self-reliance in the government budget; (2) strengthening the balance of payments through expansion and diversification of the export base; and (3) overcoming institutional and organizational constraints which have stunted the economy and limited progress in the adjustment effort. The authorities' task is made more difficult by the weak outlook for exports, although no financing problems are anticipated in the near term. Adequate external support appears available for a well concerted development effort from multilateral and bilateral sources. However, there will be some shift from grants to development loans.

Against this background, the staff commends the authorities for their decision to adopt an Investment Law and liberalize residency permits. Although, after substantial effort, the framework for settling land ownership issues has been created, the system appears to be stalled. The staff urges the Government to make every effort to speed the process lest investment opportunities continue to be lost. Considerable expenditure restraint is necessary if a sustainable budget position is to be maintained. In this connection, the staff also urges that determined efforts to improve efficiency in government operations and raise revenues be pursued. Identification and implementation of income generating development projects necessary to the success of the structural adjustment effort is difficult because of the limited pool of trained staff in Government--a constraint which cannot quickly be eased. Accordingly, the staff would hope that aid donors would support the development effort through continued technical assistance, as well as development aid.

The staff commends the authorities for maintaining an exchange system free of restrictions on payments and transfers for current and capital transactions.

It is proposed that Vanuatu remain on an 18-month consultation cycle.

Vanuatu

Basic Data

Area:	12,000 square kilometers
Population:	130,000
Population growth:	3.0 percent
GDP per capita (1984):	SDR 730

	1982	1983	1984	1985 Est.
Output and price (annual rate of change in percent)				
Real GDP	2.0	3.0	5.0	-3.0
Consumer prices	6.2	1.7	5.5	3.0-4.0
Money and credit (annual rate of change in percent)				
Broad money	56.8	32.7	35.1	17.4 1/
Total domestic credit	30.8	21.3	-21.3	10.5 1/
Credit to private sector	3.7	7.4	0.2	6.3 1/
Credit to government (net)	33.4	22.3	-84.5	4.5 1/
Public finance (annual rate of change in percent)				
Total revenue and grants	-6.5	-9.4	28.2	-6.0 2/
Foreign grants	-14.9	-22.2	25.2	-17.5 2/
Of which: recurrent budget	-17.3	-24.8	-21.9	-34.8 2/
Total expenditure	11.7	-14.1	14.9	4.1 2/
Current expenditure	13.9	4.0	9.9	14.5 2/
Balance of payments (SDR millions)				
Exports (f.o.b.)	9.7	16.8	30.8	17.1
Imports (f.o.b.)	39.6	42.6	50.0	50.6
Trade balance	-29.9	-25.8	-19.2	-33.5
Current account balance 3/	9.9	3.2	19.0	-5.4
Overall balance 4/	16.2	16.5	39.6	5.6
Terms of trade (percent change)	-18.6	33.7	55.9	-47.8
		(Annual percent change)		
Gross official reserves (end of period)				
In millions of SDRs	12.4	10.2	15.6	16.2 5/
In months of imports	3.8	2.8	3.7	4.0 5/
Exchange rates				
Vatu/SDR 6/	106.2	106.2	100.6	110.0 5/
Nominal effective exchange rate 7/	90.0	92.5	102.6	103.4 5/
Real effective exchange rate 7/	98.3	99.5	109.4	111.5 5/
Selected financial ratios (in percent)				
Current account/GDP	13.1	4.1	21.7	-6.2
Government budget deficit/GDP	-4.2	-0.1	4.9	-0.3
External debt/GDP	4.9	4.4	4.5	7.6 8/
External debt service ratio 9/	4.4	2.7	1.9	4.3 8/
Foreign grants/GDP 10/	41.8	31.0	35.0	28.8

1/ Twelve months ending June.
2/ Staff estimates.
3/ Including official transfers.
4/ Based on the net foreign asset position of the monetary system.
5/ June 1985.
6/ End of period.
7/ Fourth quarter average. Trade-weighted 1980=100.
8/ Increases in ratios mainly reflect effects of the January 1985 cyclones on GDP and exports.
9/ Percent of exports of goods.
10/ Foreign grants inclusive of capital and technical assistance grants.

Vanuatu: Relations with the Fund
(As of September 30, 1985)

I. Membership status

(a)	Date of membership:	September 28, 1981
(b)	Status:	Article VIII

A. Financial Relations

II. General Department (General Resources Account)

(a)	Quota:	SDR 9.0 million
(b)	Total Fund holdings of currency:	SDR 7.419 million (82.4 percent of quota)
(c)	Fund credit:	None
	Of which: Credit tranches:	None
	Special facilities:	None
(d)	Reserve tranche position:	SDR 1.581 million (17.6 percent of quota)
(e)	Current operational budget:	None
(f)	Lending to the Fund:	None

III. Stand-by or extended arrangement and special facilities

(a)	Stand-by or extended arrangement:	None
(b)	Special facilities:	None

Vanuatu has not used Fund resources since becoming a member in 1981.

IV. SDR Department

(a)	Net cumulative allocation:	None
(b)	Holdings:	SDR 132,317
(c)	Current Designation Plan:	None

V. Administered Accounts

(a)	Trust Fund loans:	
	(i) Disbursed:	None
	(ii) Outstanding:	None
(b)	SFF Subsidy Account:	None

VI. Overdue obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange rate arrangement

Since September 10, 1981, the vatu has been pegged to the SDR; from that date until March 11, 1984 the exchange rate was set at VT 106.20 = SDR 1. On March 12, 1984, the vatu was revalued by 5.6 percent to a rate of VT 100.60 = SDR 1. On April 1, 1985, the vatu was devalued by 8.5 percent to a rate of VT 110 = SDR 1. At present the Central Bank of Vanuatu does not buy or sell foreign exchange. As a transitional arrangement, the Banque Indosuez Vanuatu, which is currently the main government depository, quotes daily rates of the vatu against 11 currencies on the basis of their respective SDR values. A spread of up to 0.8 percent is maintained by the Banque Indosuez on the international commercial buying and selling rates of those currencies in terms of the SDR for its purchases and sales of vatu. There are no taxes or subsidies on purchases or sales of foreign exchange.

VIII. Last Article IV consultation

The staff held consultations with the authorities in Port Vila during March 19-30, 1984. The Executive Board discussed the Staff Report (SM/84/116, 5/22/84) on June 27, 1984 (Executive Board Meeting 84/100).

IX. Technical assistance

(a) CBD: Three CBD technical experts have been provided to the Central Bank of Vanuatu since its inception in 1980; they occupy the positions of General Manager, Deputy General Manager, and Research Manager.

(b) FAD: In July 1983, a member from the panel of fiscal experts was assigned for a period of six months to the Ministry of Finance to provide technical assistance in the field of budgetary control.

X. Resident Representative/Advisor

None.

Vanuatu: Relations with the World Bank Group

In its lending program to Vanuatu, the Bank Group has given consideration to the need for aid coordination, impact, and cost effectiveness of IDA involvement in the Pacific Island region, and the expertise and geographical proximity of the Asian Development Bank (AsDB). Therefore, when Vanuatu joined the Bank in 1981, the understanding was reached that IDA would co-finance, with AsDB as the lead institution, selected projects in sectors of common concern and interest. To date, only one credit of SDR 1.9 million ($2.0 million equivalent) has been made (in May 1983) for an Agricultural Extension and Training Project, co-financed with AsDB.

IDA concentrates its activities in agriculture, which engages 80 percent of the work force, and education and training, which are required to meet the manpower needs of the formal and nonformal sectors of the economy. An IBRD Economic Memorandum on Vanuatu was issued in July 1983. The report of an energy assessment mission which visited Vanuatu in April 1984 was finalized in June 1985. An education and training sector report was issued in February 1985. The Bank Group is coordinating and supervising five studies recommended by the latter report. The staff will be undertaking an education sector investment mission in spring 1986 to aid the Government in preparing an education sector investment plan. In addition, aid for reconstruction after the recent cyclone damage is being considered in the context of an AsDB co-financed project--likely to be a multi-project credit.

The lack of coordination among the various aid donors active in Vanuatu has made it difficult for the Government to undertake realistic long-term planning, as well as creating difficulties stemming from differences in aid procedures, regulations, and design specifications. The Government has been seriously concerned about aid coordination and has asked the Bank Group for help in convening a preliminary meeting of donors tentatively scheduled for the spring of 1986, prior to the Government's preparation of its 1987-91 Development Plan. The meeting would address the Government's proposed development objectives and strategies, including reconstruction following the recent cyclones.

Lending of the World Bank Group
(As of June 30, 1985)
(In US$ millions)

	IDA	Undisbursed
Commitments:	2.0	1.81
Total:	2.0	1.81
Repayments:	--	
Debt outstanding (including undisbursed):	2.0	
Commitments for FY 1985:	--	
Structural adjustment loans:	None	

Recent economic work: The Country Economic Memorandum--"Vanuatu: Selected Development Issues" was issued on July 29, 1983.

Recent sector work: A "Vanuatu: Education and Training Sector Report" was issued February 28, 1985.

The Bank Group is coordinating and supervising five studies recommended by the report: manpower planning, education, finance, curriculum development, education management, and school mapping.

A joint UNDP/World Bank energy assessment report was finalized in June 1985.

Technical assistance: --

Aid Consultative Group: Aid Donor Meeting scheduled for the spring of 1986.

Vanuatu--Statistical Issues

1. Outstanding statistical issues

A country page for Vanuatu has been introduced in the July 1985 issue of International Financial Statistics (IFS).

a. Prices

The weights (first quarter of 1976) underlying the construction of the official consumer price index are somewhat outdated. The authorities are undertaking a new expenditure survey, to be completed in 1986, in order to update the weighting pattern of the consumer price index.

b. Monetary accounts

At present, money and banking data are available only for the monetary system. Following a series of correspondence, proposed forms for the reporting of data on nonmonetary financial institutions were recently sent to the IFS correspondent. Reporting of data on the accounts of these institutions will commence in the near future, thereby enabling the publication of a nonmonetary financial institutions' section on the IFS page for Vanuatu.

c. Government finance

The 1984 GFS Yearbook does not include a presentation for Vanuatu. While the authorities maintain a comprehensive budgetary system for current expenditure and revenue, an overall budget, including development expenditure, is not yet available.

The country page for Vanuatu of IFS does not contain data on government finance. In order to fill this gap, the Bureau of Statistics has written to the authorities seeking their approval to publish the fiscal data currently appearing in Fund reports on Recent Economic Developments (REDs) in IFS.

d. Balance of payments

The authorities began reporting balance of payments data to the Bureau in August 1985. The next annual issue of Balance of Payments Statistics, which will be published in November 1985, will contain a section for Vanuatu for the first time, incorporating annual data for 1982-84 and quarterly data for 1984 as well as explanatory notes.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Vanuatu in the September 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Vanuatu, which during the past year have been provided on a timely basis.

Status of IFS Data

			Latest Data in September 1985 IFS
Real Sector	- National Accounts		...
	- Prices		Q1 1985
	- Production		...
	- Employment		...
	- Earnings		...
Government Finance	- Deficit/Surplus		...
	- Financing		...
	- Debt		...
Monetary Accounts	- Monetary Authorities		June 1985
	- Deposit Money Banks		June 1985
	- Other Financial Institutions		...
External Sector	- Merchandise Trade:	Value	March 1985
		Prices	...
	- Balance of Payments		...
	- International Reserves		July 1985
	- Exchange Rates		July 1985