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CONFIDENTIAL

March 18, 1981

To: Members of the Committee on Membership - Vanuatu
From: The Committee Secretary
Subject: Calculation of Quota for Vanuatu

A staff memorandum relating to the calculation of a quota for Vanuatu is attached. It is proposed to consider this matter at a meeting of the Committee scheduled for 3:00 p.m. on Friday, April 3, 1981, in Committee Room 12-120.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads
Mr. Crévier (IBRD)

INTERNATIONAL MONETARY FUND

REPUBLIC OF VANUATU

Calculation of Quota 1/

Prepared by the Asian and Treasurer's Departments

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

Approved by P.R. Narvekar and W.O. Habermeier

March 13, 1981

I. Background

The Republic of Vanuatu, which became independent on July 30, 1980, consists of an irregular Y-shaped chain of some 70 inhabited islands stretched out over more than 800 kilometers in the South West Pacific Ocean with a surface area of some 12,000 square kilometers. Situated approximately 1,750 kilometers east of Australia and 800 kilometers west of Fiji, Vanuatu is peopled primarily by indigenous inhabitants of Melanesian origin with over 80 per cent living in the rural areas. The latest census (1979) counted a population of 112,596, including also a number of Polynesians, Chinese, Vietnamese, Fijians, French, British, Australians, Tongans and others making up about 7 per cent of the total (Table 1). The population has a high proportion of young persons, with 45 per cent being under the age of 15 years and 93 per cent under 55 years. The diversity of cultures is further evidenced by more than 100 indigenous languages plus the official languages, English and French; the national language is Bislama or Pidgin English. Port Vila is the capital with a population of about 15,000.

The islands were explored, mapped and named the New Hebrides by Captain Cook in 1774, but it was only after the discovery in the 1820s of sandalwood on the island of Erromango that traders, planters and missionaries, particularly from the United Kingdom and France, began to arrive in large numbers. Settling and trading mainly in the coastal areas, the British and French exported copra and planted coconut palms, coffee plants, and cocoa trees. From 1870 the Governments of both France and the United Kingdom moved into the New Hebrides to protect their interests. They established a Joint Naval Commission for the protection of the settlers. This led to the formal establishment of the Anglo-French Condominium in 1906, providing for the joint administration of the New Hebrides. This was superseded by the Anglo-French Protocol of

1/ Based on information collected by a fact finding mission consisting of Messrs. Richard Miller (CBD), Xan Vongsathorn (ASD), Aarno Liuksila (LEG), Robert Franklin (SEC), and Orlando Roncesvalles (TRE), which visited Port Vila during November 9-16, 1980.

Table 1. Vanuatu: Population Distribution, 1967 and 1979

(Number of persons) 1/

	Urban Areas			Rural Areas	Total	Ethnic Origin			
	Port Vila	Lugan- ville	Total			Ni- Vanuatu <u>2/</u>	Pacific Islanders	Europeans	Others
<u>Census years 3/</u>									
1967	7,738 (9.9)	2,564 (3.3)	10,302 (13.2)	67,686 (86.8)	77,988 (100.0)	72,243 (92.6)	1,696 (2.2)	1,773 (2.3)	2,276 (2.9)
1979 <u>4/</u>	14,801 (13.1)	4,944 (4.4)	19,745 (17.5)	92,851 (82.5)	112,596 (100.0)	104,700 (93.0)	2,480 (2.2)	2,600 (2.3)	2,816 (2.5)

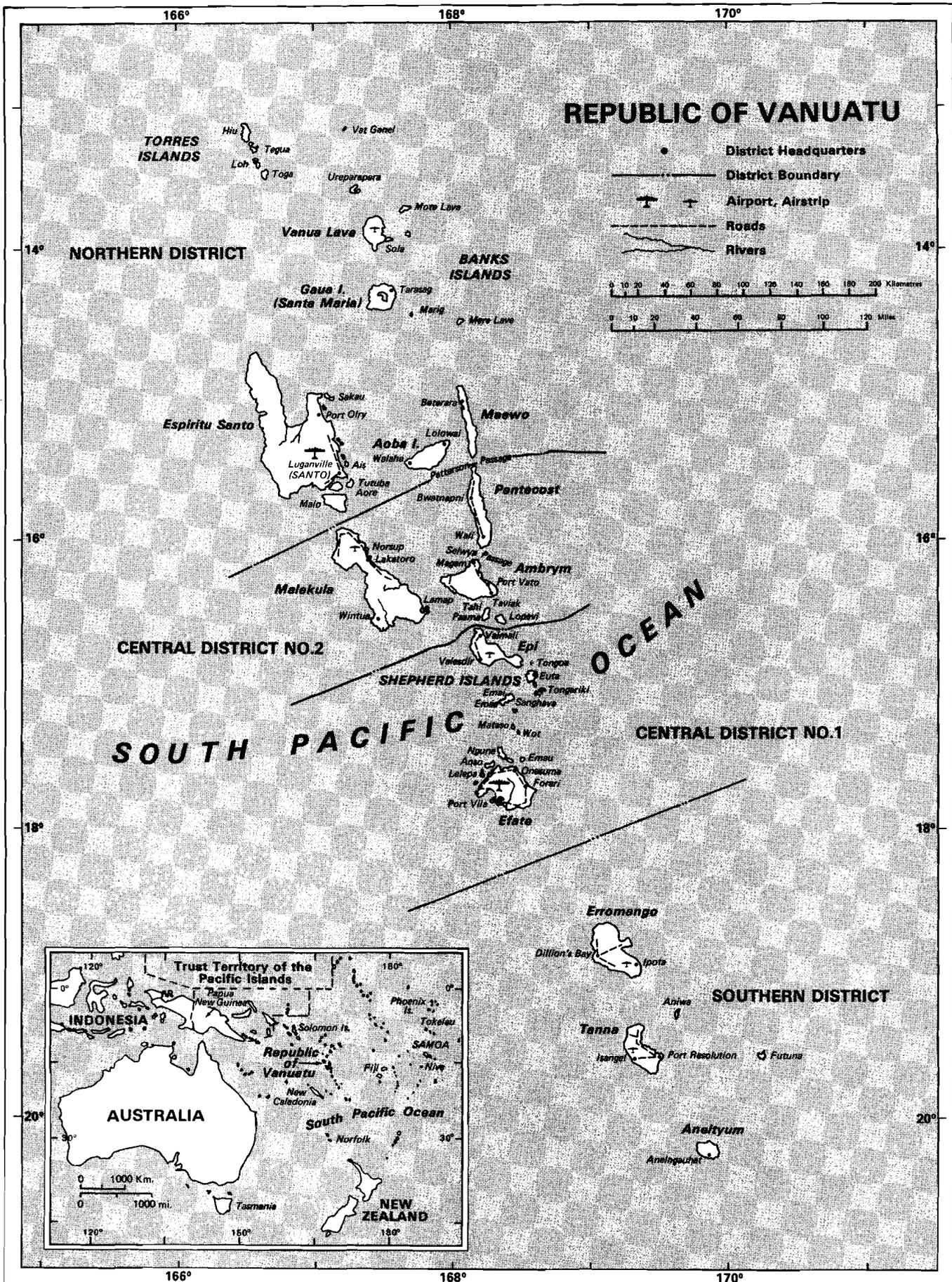
Source: Data provided by the Vanuatu authorities.

1/ Figures in parentheses denote percentage share.

2/ This term is used for the indigenous inhabitants of Vanuatu.

3/ Dates of the population census counts were May 28, 1967 and January 15-16, 1979.

4/ Preliminary. The ethnic distribution is assumed to be largely the same as in 1967.



August 1914, which, with some modifications, regulated the administration of the New Hebrides up to its independence. Prior to independence, the British and French administered the New Hebrides as a Condominium with separate jurisdiction over their respective nationals and over corporations legally constituted under their laws, subject however to joint regulations which applied to all inhabitants regardless of nationality and status.

Political developments in the South Pacific subsequent to the Second World War gave the islanders a new perspective, and growing political awareness amongst the Melanesian New Hebrideans accelerated moves toward ultimate independence. A major proportion of a representative Assembly, with a Chief Minister and cabinet, was elected in November 1977. National elections were held in November 1979 and total independence was achieved eight months later. On September 18, 1980 Vanuatu requested admission to membership in the Fund.

II. Economic Structure

1. Production

The Republic of Vanuatu is a developing country consisting of a large number of islands of coral and volcanic origin with narrow coastal strips of cultivable land. The country, whose main natural resources are copra, fish, cocoa and some minerals, is characterized by a dualistic economy with a large traditional subsistence agricultural sector and a small monetized sector. The latter, which is dominated by expatriates, is based on established plantations, ranches and associated trading, manufacturing, banking and shipping services as well as the tourist industry. The growing public administration has also contributed significantly to the expansion of the monetized sector in recent years. The absence of exchange controls and personal and corporation income taxes resulted in the establishment of an offshore banking center in the early 1970s, which led to a rapid expansion in the number of banks and finance houses in Port Vila. Activities related to the offshore market and overseas trade are controlled by large foreign commercial firms. Retail trade in urban areas is dominated by the foreign trading companies and individual entrepreneurs of mainly Chinese and Vietnamese origin. Although the ni-Vanuatu ^{1/} are somewhat reluctant to sever all ties with the village economy and enter permanently into the monetized sector, most families earn some income by raising cash crops, such as copra and cocoa, and normally at least one member of a family is employed in the monetized sector. About 75 per cent of the total copra output is produced by ni-Vanuatu in small-scale garden plantations.

The principal subsistence crops are yam, taro, cassava, breadfruit, and vegetables. Subsistence fishing is also a traditional occupation. Some cattle, pigs, and chickens are kept in rural areas. Housing and capital equipment (such as fishing canoes) are built by members of the families and villages; such services are provided on a noncash basis.

^{1/} This term is used for the indigenous inhabitants of Vanuatu.

Since independence, all freehold land has been returned to the indigenous communal ownership of villages. With the abundance of foodstuffs produced by subsistence cultivation, the basic needs of the rural inhabitants are apparently well met.

There are no current official estimates of national income but according to a rough estimate, GDP at current market prices was 6.2 billion vatu in 1976.^{1/} This relatively high level of income (\$825 per capita) reflects large wage payments to expatriates and activity in the monetized sector of the economy, which together accounted for 85 per cent of estimated GDP. The authorities estimate that per capita income of the indigenous inhabitants was probably about \$200 in 1976, and about \$250-300 by 1979.

Commercial production in Vanuatu comprises mainly copra, cocoa, fish, manganese, and beef. Production performance has been rather mixed in recent years. During 1975-79 copra output expanded from about 27,200 tons to 49,500 tons, but the rate of expansion has dropped sharply following the large rises in 1975 and 1976 (Table 2). The slowdown in copra production and the absolute decline in output in 1979, despite relatively favorable prices, were attributable in part to aging coconut trees. The total area under coconut trees is about 68,000 hectares, of which 32 per cent is under large European plantations (about 300 hectares each). Cocoa production grew at a high rate from a relatively low level during 1975-78, but the output dropped sharply in 1979, due mainly to diseases in certain cocoa plantations. Fish is potentially a major resource. The fishing industry has grown in recent years, and, in gross value terms, is the country's second largest export item. The fish catch increased from 5,200 tons in 1975 to 7,600 tons in 1979; a large proportion was exported as frozen fish. No large mineral deposits have been discovered so far. A manganese mine was in operation from 1962, but the deposits were largely exhausted by the end of 1979. A viable cattle industry has developed in recent years, with a herd estimated to exceed 100,000 head. About 80 per cent of the cattle is owned by Europeans, but ni-Vanuatu's ownership, often in the form of cattle in coconut plantations, has been increasing rapidly.

The manufacturing sector consists of a small number of industries involved in processing primary products for export. These include meat canning plants, and two abattoirs, only one of which is equipped to process meat for export. A coconut-crushing mill was destroyed during a local disturbance in June 1980. Boat building for the fishing industry is being initiated. There is also a possibility of using pozzolana, a volcanic ash, for cement manufacturing and for export. Industries producing consumer goods for the local market are generally small and based around urban areas. They include soft drinks, bread, aluminum and glass products, corrugated iron, water tanks, concrete blocks, furniture, clothing, and boats. Most of the manufacturing industries use a large proportion of imported inputs.

^{1/} Estimates of National Accounts for the New Hebrides, 1976, by Mr. B. Cazals and Mr. D. M. Potten. The vatu (VT) is the new currency of Vanuatu and the exchange rate is currently about VT 93 = SDR 1; see Section 4.

Table 2. Vanuatu: Output of Major Agriculture, Fishery, and Mining Products, 1975-79

(In metric tons)^{1/}

	1975	1976	1977	1978	1979
Copra	27,202	35,708 (31.3)	44,304 (24.1)	49,940 ^{2/} (12.7)	49,461 ^{2/} (-1.0)
Cocoa	391	665 (70.1)	855 (28.6)	1,096 (28.2)	554 (-49.5)
Fish	5,218	6,091 (16.7)	9,997 (64.1)	9,182 (-8.2)	7,624 (-17.0)
Manganese	46,520	45,208 (-2.8)	27,533 (-39.1)	24,739 (-10.1)	12,082 (-51.2)
Beef and Veal	606	516 (-14.9)	485 (-6.0)	727 (49.9)	618 (-15.0)

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

^{1/} Figures in parentheses are percentage changes over the previous period.

^{2/} Including estimates of copra purchased by the coconut oil crushing mill; the mill was destroyed during a local disturbance in June 1980.

Local trade, outside the urban areas, is dominated by the cooperative societies. They retail a selection of foodstuffs, clothing and other household necessities, and buy copra, cocoa, shells, vegetables, and handicraft products which are a source of cash income for rural households. At the wholesale level, the secondary cooperatives organize transport, marketing, and the provision of supplies. The cooperative savings bank provides financial services to rural communities.

Vanuatu depends mainly on imported mineral fuels for its energy requirements. Diesel fuel is used for electricity generation and by the fishing fleet, and gasoline is required for some 5,000 motor vehicles.^{1/}

^{1/} There are about 1,000 kilometers of roads in Vanuatu, of which only 60 kilometers are sealed.

The installed capacity of electricity generation is estimated to be about 10,000 kilowatts. Small-scale hydroelectric power generators are in use in rural areas where firewood and copra husks are also important sources of energy.

2. Planning, employment and wages

Before independence in 1980, economic development functions were under the control of the Metropolitan powers. In 1970, the first New Hebrides Joint Development Plan, 1971-75, was prepared by the British and French Residencies to increase the economic productive capacity of Vanuatu. Delays in implementing the Plan led to its extension into 1976 and 1977. With only 71 per cent of the 126 projects proposed in the Plan being implemented in some form, the performance of the Plan fell well below its original aims. However, the Plan paved the way for the establishment of the Central Planning Office and the preparation of the Transitional Development Plan, 1978-80. The major aim of the Transitional Plan was to prepare the country for independence, with emphasis on the unification of government functions and services, the wide distribution of economic opportunities, the participation of local communities in national development, and improvement in inter-island communications.

Currently, a modest and realistic year-to-year economic development program for the public sector is being prepared. The size and sectoral allocation of development expenditures will be dependent on the contents of the aid package which is being agreed between the Government and its major aid donors. The main aims of the development program will be increased financial self-reliance, rural development, and balance of payments viability. The program will emphasize the need for export promotion and import substitution, including especially the development of hydroelectric and geothermal power. Efforts will be continued to develop traditional agriculture and to broaden the scope of the market economy. Development efforts will focus on improvements in infrastructure, particularly road and inter-island shipping services; the development of marketing facilities through strengthening the existing cooperative system and the establishment of a copra board; and the expansion of financial services in rural areas through the newly established Development Bank and the cooperative savings bank network. The authorities are also exploring the possibility of inviting foreign investors to set up joint-venture commercial corporations in the agricultural sector.

According to the 1967 population census, the economically active population was estimated to be 35,133 (or about 45 per cent of the total population), over 80 per cent of whom were in the agricultural subsistence sector and the remainder in wage-earning employment. The number of wage earners is officially estimated to have risen by 9 per cent per annum between 1973 and 1976 to a total of some 10,500. A breakdown of employment by main economic sectors in 1976 indicates that the public service accounted for about 29 per cent of total wage employment; agriculture, 19 per cent; wholesale and retail trade, 15 per cent; household services, 11 per cent; construction, 5 per cent; transport, 4 per cent; banking, 3 per cent; and manufacturing, 3 per cent.

Wage employment is confined mainly to the two urban centers of Port Vila and Luganville. The current wage rate for unskilled workers in Port Vila is about VT 6,000 a month for an eight-hour day, five-and-a-half-day week; there are no minimum wage regulations. In recent years, the wage rates in the monetized sector, which are heavily influenced by the public service system, have remained relatively stable. The rate of turnover of unskilled labor is relatively high, in part because of absences by workers to visit, and maintain close ties with, their villages and home islands, whose affairs take precedence over employment. With the traditional extended family system, there is no serious unemployment problem and the family social welfare system remains largely unimpaired.

Some primary and basic secondary education is available to the majority of people. However, only in recent years has a small number of ni-Vanuatu achieved higher education other than as Christian seminarians, and, there is a serious shortage of skilled ni-Vanuatu in both the public and private sectors. While most technical and entrepreneurial jobs are still held by expatriates, some progress has recently been made in filling management positions with indigenous staff, particularly in the public sector.

3. Government finance

Prior to independence in July 1980, the public sector in Vanuatu was under three administrations (Condominium,^{1/} the British National Service, and the French Residency), with three separate budgets. The two metropolitan powers exercised joint control over a number of Condominium services and separate control over a number of their own services. British and French expenditures in Vanuatu were largely financed by the respective governments. A major proportion of their expenditures was allocated to three functions--education, health, and the police. Although self-government was introduced into Vanuatu in early 1978 and certain administrative functions were progressively transferred to the national government, the 1980 budget was the first in which the revenues and expenditures of the British National Service and the French Residency were combined with those of the Vanuatu Government in a consolidated account.

The fiscal operations of the Government have been effected through two separate budgets prepared and administered by the Ministry of Finance. The recurrent budget, providing payments for the day-to-day operation of government services, has normally been more than funded by tax and nontax revenues. The major items of expenditures included public works, postal services and telecommunications, and administration. In the past, any unanticipated deficit was financed by grants-in-aid from the British and French Governments. The capital budget providing for project expenditures was implemented within a framework of a flexible development plan, according to guidelines on priority projects, which was prepared by the Central Planning Office within the Office of the Prime Minister.

^{1/} This was the joint administrative service of the British and French Governments in the New Hebrides.

Condominium capital expenditures were almost entirely financed by grants from the British and French Governments. Loans and grants have also been received from Australia, New Zealand, and other sources. All accounts for receipts and payments have been kept on a cash basis. Unused appropriations generally lapse at the end of the fiscal year ending December 31, but capital expenditures on approved projects may be carried forward to the following year.

Taxes on international trade account for over 96 per cent of tax revenue. Other sources of government revenue include business license fees, charges on government services, and airport, port and wharf taxes. Public debt, which was incurred during the period before 1976 mainly for specific development projects, remains relatively small; at the end of 1979, it amounted to VT 417 million (\$6.0 million), of which 9 per cent was in domestic currency.

Trends in recent budgetary developments are presented in Table 3, which combines the budgets of the three administrations. During the past five years, a relatively small overall deficit in 1976 was followed by three consecutive years of large overall surpluses, and a small deficit is envisaged for 1980. Total domestic revenue more than covered current expenditure in this period. The steady increase in domestic revenue over the period reflects mainly a sharp rise in taxes on international trade, following an upsurge in export earnings and import expansion in 1977. The broadening of the tax base, mainly through the imposition of new duties on previously duty-free imports, and increases in tariff rates on a wide range of exports and imports have also contributed importantly to the mobilization of government revenue. Estimated foreign grants rose from VT 2,283 million in 1976 to VT 2,662 million in 1979, and further to VT 2,788 million in 1980.

Between 1976 and 1980, total public expenditure grew at an average annual rate of 6.5 per cent, compared to a rate of 7 per cent for government revenue. The rate of increase has fluctuated considerably from year to year, in large part as a result of the variability of expenditures financed directly by grants from the British and French Governments. Expenditures through the Condominium budget, which have generally been financed by domestic revenues, have grown at moderate rates due to restraint on wage and salary increases for locally employed staff, the total cost of which has represented about one third of the Condominium budget.

4. Money and banking

The New Hebrides franc (NHF) and the Australian dollar (\$) ^{1/} circulated side by side in Vanuatu before the end of 1980. Since January 1, 1981, the official currency has been the vatu (VT), which is equal in value to the New Hebrides franc. ^{2/}

^{1/} The Australian dollar (\$) was a widely-used currency in the New Hebrides, though lacking full legal tender status. The New Hebrides franc was the dominant currency.

^{2/} The New Hebrides franc was pegged to the French franc at a rate of NHF 1 = F. 0.061875 from August 8, 1969.

Table 3. Vanuatu: Summary of Government Budget, 1976-80 1/

(In millions of vatu)

	1976	1977	1978	1979 (Preliminary)	1980 (Budget)
Revenue and foreign grants	<u>3,259.2</u>	<u>3,404.3</u>	<u>3,792.5</u>	<u>4,231.0</u>	<u>4,285.6</u>
Tax and nontax revenues <u>2/</u>	977.6	1,149.3	1,283.5	1,569.4	1,497.3
Tax revenue	476.2	694.6	711.7	975.0	931.2
Export duties	(51.6)	(117.3)	(111.6)	(139.9)	(96.0)
Import duties	(401.9)	(550.0)	(572.2)	(802.1)	(801.2)
Other taxes	(22.7)	(27.3)	(27.9)	(33.0)	(34.0)
Nontax revenue <u>3/</u>	465.4	454.7	571.8	594.4	566.1
Foreign grants <u>4/</u>	2,281.6	2,255.0	2,509.0	2,661.6	2,788.3
Expenditure	<u>3,340.4</u>	<u>3,185.2</u>	<u>3,324.4</u>	<u>4,072.7</u>	<u>4,299.0</u>
Overall surplus or deficit (-)	<u>-81.2</u>	<u>219.1</u>	<u>468.1</u>	<u>158.3</u>	<u>-13.4</u>
Total financing	81.2	-219.1	-468.1	-158.3	13.4
Borrowing <u>5/</u>	142.0	-3.1	-86.0	-39.3	-20.0
Movements of Treasury cash and other (increase -)	-60.8	-216.0	-382.1	-119.0	33.4

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

1/ Preliminary estimates. The Vanuatu fiscal year is the same as the calendar year.2/ Tax and nontax revenues collected by the Condominium Government and since independence, by the Vanuatu Government.3/ Including license fees and user charges on government services, which are collected locally by the British and French administrations before independence.4/ Mainly from the British and French Governments. As for 1980, the amount of foreign grants includes an additional request of grant-in-aid for VT 1,161.6 million.5/ Mainly foreign loans.

On January 1, 1981, the Central Bank of Vanuatu took over the responsibility from the French Monetary Authorities for the issue of notes and coins in Vanuatu and for the management of the country's external assets. As from that date, all New Hebrides franc notes and coins both in circulation and subsequently issued by the Central Bank have been deemed to be denominated in vatu. Similarly, all bank accounts denominated in NHF as at the close of business on December 31, 1980, were redenominated as vatu. The Central Bank is arranging for the design and production of new vatu currency to replace the NHF. It is expected that the vatu currency issue will take place in the first half of 1982. Australian currency in circulation continues to be acceptable as currency.

The financial infrastructure comprises the Central Bank of Vanuatu and the Banque de l'Indochine et de Suez, which, up to the end of 1980, acted on behalf of the Institut d'Emission d'Outre-Mer, as the issuing authority for NHF notes to the commercial banks against a transfer of deposits as required. There are four other commercial banks 1/ and one merchant bank. 2/ There is also a branch of the Caisse Centrale de Cooperation Economique through which French development aid has been channeled. The new Development Bank of Vanuatu, capitalized by the Government, has been opened within the past six months and it is envisaged that this will eventually take over the development function of the Caisse Centrale. Only two banks 3/ have branches, both of which are in Luganville.

Commercial and savings banks are free to set interest rates on deposits and loans. Generally, the rates of interest on savings deposits range from 4 to 8 per cent per annum, and on time deposits of 180 days, from 8.5 to 10.5 per cent per annum; higher rates apply to large deposits. The rate of interest charged by the commercial banks on overdrafts by prime borrowers is 12 per cent per annum; loan rates for other borrowers range as high as 16 per cent per annum.

Monetization has been promoted in the rural areas by a Cooperative Savings Bank (CSB). In the five years of its operation, its deposit base has been built up to the equivalent of some VT 116 million on 10,000 accounts through 107 agencies; about two thirds of the deposits are in New Hebrides francs and one third in Australian dollars. The CSB offers 4 per cent per annum on savings deposits and normally lends at a rate of 11 per cent. The CSB also acts as salary-paying agent for the Government in rural areas.

The Caisse Centrale has provided financing for a number of purposes including housing, cattle breeding, tourism, electricity, hotels, and communications. Available financial resources are subsidized by the French Government, and loans carry an interest rate of 7 per cent per

1/ Barclays Bank (International) Ltd.; ANZ Banking Group Ltd.; Bank of New South Wales; and the Hongkong and Shanghai Banking Corporation.

2/ Gutzwiller Kurtz Bungener Bank (Overseas) Ltd.

3/ The Banque de l'Indochine et de Suez and Barclays Bank (International) Ltd.

annum. The scale of operations of the Caisse Centrale has been limited by a shortage of suitable projects.

The offshore financial center comprises the five commercial banks and one merchant bank; five trust companies; four law firms; six firms of accountants; and five real estate agents. There are at present no income taxes, corporate taxes, gift duties, estate duties, succession duties, capital gains taxes, withholding taxes or sales taxes. The financial center offers banking and trust facilities in which all major world currencies can be invested and repatriated. No information is available on the amount of business transacted through the offshore center; nor are there any reliable data on the benefits accruing to Vanuatu as a result of the operation of the center. Rough estimates indicate that it yields a direct revenue of about VT 35 million, in addition to the value of wages, rent, use of local utilities, etc.

Table 4 shows rough estimates of monetary developments in recent years. The data understate the money supply because Australian currency in circulation, which may constitute as much as one third of total currency in circulation, is excluded. Moreover, the data may also contain sizable estimation errors in other items. Nevertheless, the estimates provide a broad indication of monetary developments in recent years. The data show that there was a steady increase in the net foreign asset position of the banking system, which in 1979 amounted to VT 3.9 billion, the equivalent of 70 per cent of estimated total liquidity. Total domestic credit is estimated to have dropped by about 6 per cent between 1976 and 1979 and broad money is estimated to have risen at an average rate of 3 per cent per annum over the same period. The reliability of the estimated rate of growth of money supply is open to question bearing in mind that nominal GDP appears to have grown at a faster rate and that there was some advance in the degree of monetization of the economy during this period.

5. Prices

The present retail price index was first published in the second quarter of 1976. It replaced the previous index which was based on 1971 consumption patterns in urban areas of Port Vila. The new index is derived from results of a sample survey, carried out during the quarter ended March 1975, of expenditures on goods and services by 220 wage-earning households whose principal income-earner received a wage of less than VT 20,000 per month. According to the new index, retail prices in Port Vila increased by 3.4 per cent in 1979, compared with a 6.7 per cent rise in 1978 (Table 5). The slowdown in the rate of inflation in 1979 reflected partly an appreciation of the domestic currency ^{1/} vis-a-vis the Australian dollar. Domestic prices are substantially influenced by movements in prices of imports, a relatively large proportion of which come from Australia.

^{1/} Prices were generally quoted in New Hebrides francs.

Table 4. Vanuatu: Monetary Survey, 1976-79 1/
(In billions of Vatu)

End of Period	1976	1977	1978	1979
Foreign assets (net) <u>2/</u>	2.3	3.2	3.4	3.9
Domestic credit	<u>3.0</u>	<u>2.4</u>	<u>3.0</u>	<u>2.6</u>
Claims on Government (net)	0.3	0.2	0.2	0.1
Claims on private sector	2.7	2.2	2.8	2.5
Total liquidity	<u>5.2</u>	<u>5.6</u>	<u>5.5</u>	<u>5.6</u>
Money supply	1.4	1.6	1.6	1.8
Currency in circulation <u>3/</u>	(0.3)	(0.4)	(0.5)	(0.6)
Demand deposits	(1.1)	(1.2)	(1.1)	(1.2)
Quasi-money	3.8	4.0	3.9	3.8
Time deposits	(3.3)	(3.5)	(3.4)	(3.3)
Savings deposits	(0.5)	(0.5)	(0.5)	(0.5)
Other items (net)	0.1	--	0.9	0.9

Sources: Data provided by the Vanuatu authorities, and Rapport d'Activite, 1979, the Institut d'Emission d'Outre-Mer.

1/ Preliminary estimates.

2/ Excludes offshore operations of banks.

3/ Includes New Hebrides francs but excludes Australian dollars and other currencies in circulation.

During the first half of 1980, the annual rate of inflation increased to 8 per cent in the June quarter, reflecting partly a depreciation of the NHF and partly an increase in tariff rates on a wide range of imports.

Table 5. Vanuatu: Retail Price Indices, 1976-80 ^{1/}

(March 31, 1976=100)

(Weights)		Food (465)	Drinks and Tobacco (102)	Clothing (141)	Rent, Water, Fuel, Electricity (21)	House- hold Articles (79)	Transport and Communi- cations (97)	Recreation Health and Education (95)	All Items (1,000)	Annual Percentages Changes
1976	I Qtr.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--
	II "	101.8	100.4	100.2	101.8	100.1	103.6	102.5	101.6	--
	III "	105.7	103.1	100.0	97.9	101.4	197.8	104.3	104.2	--
	IV "	106.5	104.1	100.7	100.0	103.5	110.9	107.3	105.6	--
1977	I Qtr.	104.1	103.6	101.7	101.7	103.8	112.3	110.9	105.1	5.1
	II "	108.2	107.2	102.6	107.8	105.6	118.6	114.4	108.7	7.0
	III "	110.7	108.4	103.3	109.8	106.7	119.5	115.6	110.4	6.0
	IV "	110.0	109.7	104.2	111.1	197.5	120.7	116.0	110.6	4.7
1978	I Qtr.	112.9	110.4	104.1	111.6	111.8	120.7	122.3	113.0	7.5
	II "	116.5	112.1	105.1	113.9	112.4	122.2	125.3	115.4	6.2
	III "	117.4	112.0	106.3	118.2	113.4	124.7	126.2	116.5	5.5
	IV "	119.4	113.9	107.2	118.2	114.9	125.8	126.2	118.0	6.7
1979	I Qtr.	117.3	118.6	108.4	132.7	115.4	127.5	128.4	118.4	4.8
	II "	119.6	120.2	109.5	132.7	117.4	128.5	130.4	120.2	3.2
	III "	121.3	121.3	110.0	133.4	119.5	132.9	128.9	121.6	4.4
	IV "	120.7	122.0	110.9	132.8	121.1	134.4	130.1	122.0	3.4
1980	I Qtr.	121.9	123.6	112.0	132.8	122.9	141.3	131.3	123.8	4.6
	II "	129.0	130.5	112.9	147.6	123.0	159.5	131.8	130.0	8.2

Source: Data provided by the Vanuatu authorities.

^{1/} For households in Port Vila, whose principal income-earner received a wage of less than VT 20,000 a month.

6. External sector

Estimates of Vanuatu's balance of payments in recent years are shown in Table 6. They incorporate official data on trade and government transfers and estimates of services and private transfers prepared by the Fund staff. Because of lack of information, it is not possible at this stage to provide even rough estimates of the principal components of the capital account; nor is it possible to provide a reliable estimate of the overall balance (i.e., the balance for official financing) in the external accounts.

The Vanuatu balance of payments has been characterized in recent years by deficits in both the merchandise trade and the services accounts and more than offsetting inflows of official aid, mainly from France and the United Kingdom. The resulting current account surpluses during the period 1976-79 appear to have been largely offset in most years by capital outflows. A sizable part of these outflows may be due to transfers abroad of salaries paid to expatriate workers in Vanuatu.

Exports consist mainly of copra, fish, beef, and cocoa, which together accounted for 89 per cent of total exports in 1979 (Table 7). Following strong expansion in 1976-77, exports have since increased at only a moderate rate, reflecting largely uneven performance of export volumes; unit values of exports generally increased during 1976-79. A sharp increase in the export volume and favorable prices resulted in a doubling of copra exports in 1977. The slowdown in copra exports in 1978-79 was attributable mainly to a rise in domestic utilization by the coconut oil mill which started production from early 1978. Exports of fish were subject to wide fluctuations, due to variations in weather and the migratory habits of tuna in the South Pacific. The sharp increase in exports of beef and veal in 1978 and 1979 was due partly to supply factors, including improvements in abattoir facilities, and partly to favorable prices in overseas markets, especially New Caledonia. Following reasonably good performance during 1976-78, the volume of exports of cocoa dropped sharply in 1979, reflecting mainly problems arising from plant diseases affecting cocoa production; however, export prices continued to rise.

The export volume of manganese ore has declined consistently in recent years, due to the exhaustion of the manganese deposits; mining operations had virtually ceased by the end of 1979. Vanuatu's major export markets include France, which accounts for about 40 per cent of the total; the United States (27 per cent); the Netherlands (12 per cent); Belgium (8 per cent); and Japan (5 per cent). Generally, copra exports are sold to Europe, frozen fish to the United States and Japan, and manganese ore to Japan (Table 8).

Table 6. Vanuatu: Balance of Payments, 1976-79

(In millions of SDRs)

	1976	1977	1978	1979
Trade balance	-8.5	0.2	-3.5	-6.3
Exports, f.o.b.	14.0	27.4	30.5	33.3
Imports, f.o.b.	-22.5	-27.2	-34.0	-39.6
Services (net)	-4.5	-15.4	-9.3	-5.6
Receipts	9.7	13.1	20.0	23.5
Payments	-14.2	-28.5	-29.3	-29.1
Of which: Freights and insurance	(-5.6)	(-6.8)	(-8.5)	(-9.9)
Time charter	(-0.4)	(-1.2)	(-0.8)	(-1.1)
Private transfers (net)	0.2	0.2	0.2	0.2
Goods, services, and private transfers	-12.8	-15.0	-12.6	-11.7
Official transfers (net)	24.5	24.4	28.5	31.1
Current account balance	11.7	9.4	15.9	19.4
Capital flows and errors and omissions (net)	-10.4	0.1	-11.2	-13.4
Balance for financing <u>1/</u>	1.3	9.5	4.7	6.0
Conversion rates (vatu per SDR)	93.3	92.4	88.0	85.6

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

1/ Balance financed by commercial banks and official foreign assets.

Table 7. Vanuatu: Exports and Imports by Commodity, 1975-79 1/
(In millions of vatu)

	1975	1976	1977	1978	1979
<u>Exports</u>					
Copra	338	521	1,107	1,163	1,505
Fish, frozen	258	519	1,061	972	831
Beef and veal	72	71	75	134	118
Cocoa	39	67	170	176	95
Timber	2	5	17	7	47
Manganese	67	83	64	61	25
Other	<u>24</u>	<u>43</u>	<u>42</u>	<u>169</u>	<u>230</u>
Total <u>2/</u>	800	1,309	2,535	2,682	2,851
<u>Imports</u>					
Food, beverages, and tobacco	578	...	...	...	1,183
Industrial materials (including crude materials) n.e.s.	446	...	...	...	621
Fuels and lubricants	265	...	...	...	509
Machinery	104	...	...	...	455
Transport equipment and accessories	337	...	...	...	404
Consumer goods, n.e.s.	469	...	...	...	820
Other	<u>170</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>88</u>
Total imports by sea	2,369	...	...	...	4,080
Imports by air freight and parcel post	<u>385</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>152</u>
Total	2,754	2,628 <u>3/</u>	3,146 <u>3/</u>	3,739 <u>3/</u>	4,232

Source: Data provided by the Vanuatu authorities.

1/ Exports, f.o.b., imports, c.i.f.

2/ Excluding re-exports.

3/ Commodity details are not available for 1976-78.

Table 8. Vanuatu: Direction of Trade, 1975 and 1979

(Percentage shares)

	Exports 1/		Imports 2/	
	1975	1979	1975	1979
Japan	15	5	8	12
Singapore	--	1	4	9
Other Asia	--	1	6	7
Australia	1	--	30	32
Other Oceania	11	3	13	18
USA and Canada	28	27	3	1
France	43	40	25	17
United Kingdom	--	--	5	2
Other Europe	<u>2</u>	<u>23</u>	<u>6</u>	<u>2</u>
Total	100	100	100	100

Source: Data provided by the Vanuatu authorities.

1/ Exports, f.o.b., excluding re-exports.

2/ Imports, c.i.f.

Imports increased on average by approximately 12 per cent per annum during 1976-79 (Table 7). Vanuatu is largely self-sufficient in staple food items, and increases in imports of food, beverages, and tobacco in recent years were partly attributable to the rapid growth in the number of foreign visitors and urbanization. In 1979, imports of food, beverages, and tobacco, accounted for 27 per cent of the total; fuel and transport equipment, 22 per cent; consumer goods, 19 per cent; and machinery, 11 per cent. The major suppliers are Australia (32 per cent in 1979), France (17 per cent), Japan (12 per cent), Singapore (9 per cent), New Caledonia (6 per cent), and Fiji (5 per cent).

The net deficit in the services account has declined since 1977, reflecting mainly the growth in receipts from the tourist trade, financial services, and earnings of ni-Vanuatu working overseas. The number of visitors by air and cruise ships rose by 28 per cent to

75,000 persons during 1975-79. Private transfers (net) are insignificant, receipts consisting mainly of charitable contributions in support of church missions.

Vanuatu has been the recipient of a steadily increasing inflow of foreign aid, the amount rising from SDR 24.5 million in 1976 to SDR 31.1 million in 1979. Budget data indicate only a modest increase to SDR 31.4 million in 1980. The bulk of foreign assistance continues to be provided by France and the United Kingdom, with smaller amounts provided by Australia and New Zealand. Vanuatu has also received some financial assistance from the European Economic Community, the United Nations, and the South Pacific Commission.

The foreign assets of the banking system are estimated to have risen from SDR 24 million at the end of 1975 to SDR 45 million at the end of 1979 (Table 9). A large part of this increase was due to a rise in the assets of the commercial banks, which by end-1979 amounted to SDR 37 million. The extent to which the commercial banks' assets are matched by their foreign liabilities is not known. Foreign assets at the Institut d'Emission d'Outre-Mer, which represented the French franc backing of the New Hebrides franc currency issue, rose from SDR 3 million in 1975 to over SDR 8 million in 1979. On January 2, 1981, the French monetary authorities transferred about 37 million French francs (SDR 6.4 million) to the Central Bank of Vanuatu's accounts with the Bank of France; the amount was the equivalent of New Hebrides franc currency in circulation on December 31, 1980, less the deduction for cost of materials used in production of currency. This amount, together with a small amount of foreign assets held by the Government on its own account, presently constitutes Vanuatu's official international reserves. These holdings will be further increased when the Central Bank acquires Australian dollars circulating in Vanuatu during the issue of new vatu currency in the first half of 1982. Some part of the commercial banks' foreign assets may also be brought under the control of the Central Bank in the future.

7. Exchange and trade system

The vatu is pegged to the French franc, the intervention currency, at the rate of VT 1 = F 0.061875. This exchange rate, which previously applied to the New Hebrides franc, has been unchanged since August 1969. Exchange rates against third currencies are established daily by the Central Bank on the basis of rates quoted in France. On November 11, 1980, the buying and selling rates of a commercial bank in Port Vila for the Australian dollar were VT 81.97 and VT 83.14, respectively, per \$A 1.

Table 9. Vanuatu: Foreign Assets of the Banking System, 1975-79
(In millions of SDRs)

End of Period	1975	1976	1977	1978	1979
<u>External assets by holders</u>					
Official entities <u>1/</u>	3.1	3.1	4.4	6.3	8.3
Commercial banks <u>2/</u>	<u>20.5</u>	<u>21.8</u>	<u>30.0</u>	<u>32.9</u>	<u>36.8</u>
Total	23.6	24.9	34.4	39.1	45.1

Sources: Data provided by the Vanuatu authorities; and Rapport d'Activite, 1979, the Institut d'Emission d'Outre-Mer.

1/ Mainly the assets of the Institut d'Emission d'Outre-Mer; these represent the French franc backing of New Hebrides francs circulating in Vanuatu.

2/ Excludes offshore banking activity.

There are no restrictions on payments and transfers for current international transactions, and all inward and outward movements of capital also are free. Import duties are levied, mainly on an ad valorem basis, on most imports.1/ Those imports not subject to tariff duties include live animals, cereals, pharmaceutical products, perfumes and cosmetics, photographic equipment, jewelry, gold bullion and coins, and audio equipment. Duties are applied to most export items, mainly on an ad valorem basis; specific duties are levied on some minor exports, including scrap metal and timber. Export duties on copra are on a sliding scale basis.

III. Quota Range

1. Data used in making quota calculations

Calculations of a suggested initial quota for the Republic of Vanuatu have been made on the same basis as the quota calculations made in connection with the Seventh General Review of Quotas.2/ The calculations were

1/ With certain exceptions, imports are subject to a customs service tax of 2 per cent on basic necessities and 11 per cent on certain non-essential items; in addition, there is also a customs surcharge of 2 per cent on most imports.

2/ See Seventh General Review of Quotas - Quota Calculations, EB/CQuota/78/1, March 2, 1978.

made using two sets of data ending in 1976: Set I data comprise national income, reserves, exports, imports, and the variability of exports, while Set II data substitute current receipts (exports, services, and private transfers), current payments (imports, services, and private transfers), and the variability of current receipts for exports, imports, and variability of exports respectively. The data used in the calculations are shown in Table 10.

Table 10. Vanuatu: Data Used in Quota Calculations
(In millions of SDRs)

National income, 1976	65.95
Reserves, end-1976	3.14
Imports, c.i.f. (average 1972-76)	32.01
Exports, f.o.b. (average 1972-76)	16.15
Current payments (average 1972-76)	39.38
Current receipts (average 1972-76)	22.84
Variability of exports (1964-76)	3.35
Variability of current receipts (1964-76)	3.57

A considerable amount of estimation was involved in compiling the data used to calculate Vanuatu's quota. Official statistics were available for only exports (f.o.b.) and imports (c.i.f.). Estimates of services and private transfers for 1964-76 were made by the staff on the basis of information provided by the Vanuatu authorities on receipts from tourism and offshore financial institutions. Current payments in 1972-76 were estimated by applying on imports the average ratio of current payments to imports used for estimating current payments under the Seventh General Review for a number of members in broadly similar circumstances. Reserves represent the foreign assets held by the currency issuing authority as cover for the issue of New Hebrides francs. There are no official national income estimates; preliminary studies made by consultants for the Vanuatu authorities provided an indicative national income estimate for 1976 of VT 5,881 million, equivalent to SDR 65.95 million.

2. Quota calculations and suggested initial quota

The results of the quota calculations are shown in Table 11.

Table 11. Vanuatu: Quota Calculations

(In millions of SDRs)

	Set I	Set II	Averages of Sets I and II
Bretton Woods formula, reduced	3.86	4.07	3.97
Bretton Woods formula, reweighted			
Scheme III	5.27	5.33	5.30
Scheme IV	6.24	6.12	6.18
Bretton Woods formula, linear and reweighted			
Scheme M4	5.33	5.07	5.20
Scheme M7	5.78	5.43	5.60
Average of the lowest two of the rewighted and modified Bretton Woods formula	5.30	5.20	5.25

Following the established practice, the results of the calculations using Set I and Set II data have been averaged, and a quota range determined by the calculations based on the Bretton Woods formula, reduced, and the average of the lowest two calculations using the four reweighted formulas. As shown in Table 11, the calculations indicate a quota range of SDR 3.97 million to SDR 5.25 million.

The traditional procedure in determining the initial quota for a relatively small country has been to increase the calculated quota range by the amount of the general increase in quotas that was agreed at the preceding general review of quotas and compare the result with actual quotas of members with broadly similar economic size and characteristics. The application of the general increase of 50 per cent, provided for under the Seventh General Review, to Vanuatu's calculated quotas yields a quota range of SDR 5.96 million to SDR 7.88 million.

Table 12 compares the data used in the quota calculation for the Vanuatu with those for those members of the Fund whose present quotas range from SDR 3.0 million to SDR 10.5 million. ^{1/} As evident from

^{1/} The member with the next higher quota than those listed in Table 12 is The Gambia with a quota of SDR 13.5 million, and there are four other Fund members with quotas less than SDR 3 million.

Table 12. Data Used in Seventh Review Quota Calculation for Vanuatu and Comparable Data for Members of Similar Size

(In millions of SDRs)

	Calculated quota range	<u>Memo:</u> Agreed quota	National income	Reserves	Average exports	Average imports	Average current receipts	Average current payments	Total average trade	Total average current payments and receipts	Variability of exports	Variability of current receipts
Lesotho	8.52-9.39	10.5	231.20	0.23	10.15	97.85	71.52	128.48	108.00	200.00	1.34	4.30
Guinea-Bissau	3.28-3.80	5.9	111.90	13.88	6.71	36.88	9.40	46.25	43.59	55.65	1.03	1.50
Djibouti	7.47-8.09	5.7	98.70	16.50	1.54	72.62	42.57	86.32	74.16	128.89	0.41	9.66
St. Lucia	3.47-3.90	5.4	48.64	10.40	11.68	36.25	25.13	43.71	47.93	68.84	1.34	1.46
Western Samoa	2.71-3.34	4.5	46.80	4.51	6.62	23.97	16.12	28.42	30.59	44.54	1.69	2.39
Grenada	2.38-2.77	4.5	31.41	1.24	8.12	19.23	22.81	21.34	27.35	44.15	0.98	2.21
Comoros	1.89-1.92	3.5	51.14	7.80	6.59	14.97	10.27	18.39	21.56	28.66	0.76	1.12
Solomon Islands	2.74-3.71	3.2	57.90	--	14.72	21.89	17.84	24.78	36.61	42.62	2.46	2.50
Sao Tome & Principe	2.14-2.70	3.0	22.57	12.96	8.55	8.36	11.36	12.27	16.91	23.63	2.17	2.60
Cape Verde	2.73-3.38	3.0	30.30	28.01	2.39	26.40	16.07	31.25	28.79	47.32	0.41	2.64
Vanuatu	3.97-5.25		65.95	3.14	16.15	32.01	22.84	39.38	48.16	66.22	3.35	3.57

the economic data presented in Table 12, Vanuatu's overall economic size ranks relatively high among the members listed in that table. Vanuatu's national income in 1976 ranks fourth and falls between the national income of Djibouti and of St. Lucia, and is substantially lower than that of Guinea-Bissau. Total trade and total current transactions of Vanuatu for the period 1972-76 rank third and fourth, respectively, and are about the same size as the trade for St. Lucia. The variability of Vanuatu's exports for the period 1964-76 was markedly higher than that of any of the members listed in Table 12; its variability of current receipts is also very high, ranking third in the list after Djibouti and Lesotho. This relatively large variability of Vanuatu's exports may be traced in large part to the economy's heavy dependence on copra exports whose price fluctuated sharply during the recessionary-recovery conditions of 1975-76.

These comparisons indicate that an initial quota, which would be in line with those of existing members that are most comparable with Vanuatu in terms of economic criteria employed in determining quotas, would tend toward the lower half of the range suggested by the usual calculations. It would also be reasonable that Vanuatu's quota bears a broadly similar relationship to its calculated quota range as the relationship between the actual and calculated quotas for members with comparable economies. In the light of the above, the staff suggests that a quota close to the midpoint of the calculated quota range, say SDR 6.9 million, is reasonable taking into account the present structure of small quotas in the fund, and also the relatively high variability of Vanuatu's exports over the recent period.

IV. Initial Subscription Payment

In September 1979, the Executive Board endorsed a set of guidelines for determining the proportion of the subscription that should be paid in reserve assets by a new member. ^{1/} The Board agreed that "the amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership" (guideline 3). A reasonable approximation of the proportion of the subscription paid in reserve assets in the past was taken to be the average of all reserve assets actually paid in terms of the quotas of all members since their membership. At present, the total of the reserve asset payments made by all members amounts to 21.6 per cent of present total quotas, taking into account the SDR payments made by members in connection with increases in quotas under the Seventh General Review of Quotas.

It will be recalled that for the purpose of quota calculations, Vanuatu's gross reserves were defined as the foreign assets held by the currency issuing authority as cover for the issue of New Hebrides francs. According to the latest available information, these reserves,

^{1/} SM/79/180, Supplement 1, September 5, 1979.

totaling the equivalent of SDR 6.27 million, were transferred to the Central Bank of Vanuatu on January 2, 1981. The present level of Vanuatu's reserves, as defined above, would finance about one and a half months' imports at the 1979 level. This is less than half the average level for all members, and could be regarded as relatively low. Moreover, the economy is currently facing a short-term slowdown associated with a substantial deterioration in its external payments situation, and in particular an outflow of capital and a fall in official holdings of reserves may be expected in the short-term.

Paragraph 6 of the guidelines states that "there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment. In such circumstances, the norm for remuneration could be applied for the new members rather than the average of reserve asset payments made in the past." However, paragraph 5 of the guidelines notes that the reserve asset payment should be "not less than the equivalent of 10 per cent of the members' gross reserves or 10 per cent of initial quota, whichever was higher." In light of this it would seem appropriate to reduce the reserve asset payment required of Vanuatu from the level of 21.6 per cent indicated by guideline 3. It is proposed that Vanuatu makes a reserve asset payment equal to 15 per cent of quota. Such a payment would be consistent with the guidelines (paragraph 6) as indicated above. Although it would be equivalent to 16.5 per cent of Vanuatu's present gross reserves and slightly higher than the difference between 100 per cent of its initial quota and the remuneration norm, which is presently 12.30 per cent, it would nonetheless be the smallest proportion of quotas paid in reserve assets among the countries that became members since the Sixth General Review of quotas. ^{1/} In considering the proportion of reserve asset payment to be required of Vanuatu, due consideration was given that such a payment does not reduce what could be considered its minimum operating balance. It may also be pointed out in this connection that the reserve asset payment, which represents a diversification of a country's external reserves, can be mobilized without cost at very short notice, and would normally not pose an undue burden.

Vanuatu could make the reserve asset payment in the currencies of other members specified, with their concurrence, by the Fund (these currencies will be selected by the Managing Director from the operational budget); or, in the event that Vanuatu became a participant in the Special Drawing Rights Department, it could make the reserve asset payment in SDRs, which it could acquire from another participant. Consistent with recent practice, and in order to permit sufficient time for the completion of certain technical arrangements, including the designation of the depository and the opening of accounts, it is suggested that Vanuatu be required to pay its subscription within a period of six months of its becoming a member of the Fund.

^{1/} It may be recalled that the method employed in determining reserve asset payments for Dominica, St. Lucia, and St. Vincent was to set the proportion equal to the difference between 100 per cent of quota and the remuneration norm, which resulted in reserve asset payments equal to 18.74-18.75 per cent of quota.