

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

ROOM C-120

01

EBD/86/42

February 14, 1986

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange rate of Vanuatu vatu.

Ms. Christensen (ext. 8527) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Vanuatu--Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by Tun Thin and Eduard Brau

February 13, 1986

In the attached communication dated February 12, 1986 the Central Bank of Vanuatu has notified the Fund of a devaluation of the vatu which is pegged to the SDR. With effect from February 13, 1986, the vatu has been devalued from VT 110 = SDR 1 to VT 122 = SDR 1, representing a devaluation of 9.8 percent. As pointed out in the communication, the action was taken to reverse a steady appreciation of the vatu against a number of currencies, including the Australian and U.S. dollars. The devaluation was effected after a careful review by the authorities of its implications for various sectors of the economy. The relationship between the vatu and the SDR had last been modified on April 1, 1985, when the vatu was devalued by 9.3 percent.

In the Managing Director's summing up at the conclusion of the 1985 Article IV consultation with Vanuatu in November 1985, it was noted that Executive Directors welcomed the adjustment of the exchange rate earlier in that year and attached importance to the authorities' intention to maintain a flexible exchange rate policy. Directors also noted the gradual appreciation in real effective terms of exchange rate in recent years.

After remaining relatively stable through the end of 1983, the real effective exchange rate of the vatu had appreciated by some 16 percent up to its peak in March 1985. Since then, it depreciated by about 12 percent through end-December 1985. The staff is of the view that the recent adjustment of the exchange rate is fully consistent with the authorities' intention to maintain a flexible exchange rate policy. It believes that this corrective action should help strengthen Vanuatu's external position over the medium term and assist in continuing to maintain an exchange system which is free of restrictions on payments and transfers for current and capital international transactions.

Attachment

ATTACHMENT

Interfund
Washington, D.C.

THE CENTRAL BANK OF VANUATU HAS DEVALUED THE VATU WITH EFFECT FROM FEBRUARY 13, 1986. THE VATU WILL CONTINUE TO REMAIN PEGGED TO THE SDR BUT WITH THE NEW FIXED RATE OF VT 122 = SDR 1, REPRESENTING A DEVALUATION OF 9.84 PERCENT. ANNOUNCING THE DECISION, THE HON. KALPOKOR KALSAKAU, MINISTER OF FINANCE POINTED OUT THAT THERE HAD BEEN, IN RECENT MONTHS, A STEADY APPRECIATION OF THE VATU AGAINST CURRENCIES RELEVANT TO THE ECONOMY, INCLUDING US DOLLAR, AND MORE ESPECIALLY AGAINST THE AUSTRALIAN DOLLAR. A CAREFUL REVIEW OF THIS DEVELOPMENT AND ITS IMPLICATIONS FOR VARIOUS SECTORS OF THE ECONOMY SUGGESTED THE NEED FOR SUCH A READJUSTMENT.

REGARDS

EDWARD E. FILLINGHAM
GENERAL MANAGER
CENTRAL BANK OF VANUATU, PORT VILA

Received in Cable Room February 12, 1986