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EBD/85/91

April 4, 1985

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 arrangements of Vanuatu.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Quirk, ext. 8520.

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 H. Brau

April 4, 1985

In the attached communication dated March 31, 1985, the Central Bank of Vanuatu has informed the Fund of an 8.5 percent devaluation of the vatu vis-a-vis the SDR, to which the vatu is pegged, with effect from April 1, 1985; in national currency terms, the devaluation amounted to 9.3 percent. The new midpoint rate of the vatu is VT 110.00 = SDR 1, compared with the previous rate of VT 100.60 = SDR 1. The action, as pointed out in the communication, was taken with the intention of mitigating the adverse impact on the country's economy of the recent appreciation of the vatu against the currencies of Vanuatu's major trading partners. The relationship between the vatu and the SDR had been last modified on March 12, 1984, at which time the vatu was revalued by 5.6 percent.

The recent devaluation of the vatu was broadly in line with the view taken by the staff and Executive Directors on the matter of exchange rate policy at the time of the 1984 Article IV consultation with Vanuatu. The Staff Report (SM/84/116, 5/22/84), commenting on the March 1984 revaluation, noted that, in the short run, the gains in terms of domestic price stability resulting from the appreciation of the vatu would outweigh the adverse impact on the balance of payments; it was also noted, however, that over the longer term the adverse effect of the appreciation of the vatu on the external sector would be considerable. In concluding the consultation, Executive Directors encouraged the authorities to continue to use exchange rate policy flexibly so as to facilitate external adjustment.

A mission to hold the 1985 Article IV consultation discussions with Vanuatu is tentatively scheduled for next July-August, at which time exchange rate developments and policies will be discussed and analyzed.

Attachment

INTERFUND
WASHINGTON, D.C.

MARCH 31, 1985

THE CENTRAL BANK OF VANUATU HAS DEVALUED THE VATU WITH EFFECT FROM MONDAY, APRIL 1, 1985. THE LINK WITH THE SDR IS BEING MAINTAINED BUT WITH A NEW FIXED RATE. THE NEW RATE IS 110 VATU FOR ONE SDR INSTEAD OF 100.6 VATU, WHICH REPRESENTS A DEVALUATION OF THE VATU BY \$9.34. 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 PARTICULARLY AGAINST THE AUSTRALIAN DOLLAR, THE NEW ZEALAND DOLLAR AND OTHER CURRENCIES OF COUNTRIES WITH WHICH VANUATU HAS TRADE, AID AND TOURIST RELATIONS. A CAREFUL REVIEW OF THIS DEVELOPMENT AND ITS IMPLICATIONS FOR VARIOUS SECTORS OF THE ECONOMY SUGGESTED THE NEED FOR SUCH A READJUSTMENT.

CENTRAL BANK OF VANUATU
PORTVILA

Received in Cable Room: March 31, 1985