VANUATU: MILLENNIUM DEVELOPMENT GOALS PROGRESS

	1990	1995	Latest Data 2001-02	Target 2015
Goal 1: Eradicate Extreme Poverty and Hunger				
Prevalence of child malnutrition (percent of children under 5)	...	12.1	...	6.0
Goal 2: Achieve Universal Primary Education				
Net primary enrollment ratio (percent of relevant age group)	...	...	93.2	100.0
Goal 3: Promote Gender Equality				
Ratio of girls to boys in primary and secondary education (percent)	91.0	...	...	100.0
Proportion of seats held by women in national parliament (percent)	...	2.0	...	...
Goal 4: Reduce Child Mortality				
Under 5 mortality rate (per 1,000)	70.0	56.0	42.0	24.0
Goal 5: Improve Maternal Health				
Maternal mortality ratio (per 100,000 live births)	...	...	130.0	32.0
Births attended by skilled health staff	...	89.1	...	
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases				
Incidence of tuberculosis (per 100,000 people)	...	...	90.6	...
Goal 7: Ensure Environmental Sustainability				
Forest area (percent of total land area)	36.2	...	36.7	...
Nationally protected areas (percent of total land area)	...	0.0	0.3	...
CO_2 emissions (metric tons per capita)	0.4	0.4	0.4	...
Access to an improved water source (percent of population)	...	...	88.0	94.0
Access to improved sanitation (percent of population)	...	...	100.0	...
Goal 8: Develop a Global Partnership for Development				
Fixed line and mobile telephones (per 1,000 people)	17.8	25.9	56.9	...
Personal computers (per 1,000 people)	...	7.4	14.8	...

Source: World Bank; World Development Indicators Database, April 2004.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/31
FOR IMMEDIATE RELEASE
March 11, 2005

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2004 Article IV Consultation with Vanuatu

On February 25, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vanuatu.[1]

Background

Vanuatu achieved positive real growth in 2003–04, after two years of decline. Macroeconomic stability was maintained and some progress made in addressing structural weaknesses. However, a weak environment for private activity, including poor infrastructure and political instability, and rapid population growth have compounded the difficulties that come from a narrow output and export base, and contributed to low per capita GDP growth relative to comparator Pacific and Caribbean island countries over the past decade. As a result, the outlook for the faster economic growth needed to lift living standards is not bright without a deepening of reform. Human development indicators are low. About 40 percent of the population is below the poverty line and 80 percent of the labor force is employed in subsistence activities in rural areas.

Real GDP growth rebounded to 2.4 percent in 2003 and the recovery continued in 2004 with growth of an estimated 3 percent. The improvement was bolstered by a strong supply response to a recovery in export prices and the liberalization of trading in two key exports (cocoa and copra), the discovery of new markets for kava following the ban by several countries in 2002, and higher tourist arrivals with an expansion in airline capacity to Vanuatu.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Fiscal consolidation continued over the past two years. Although in large part reflecting sharply reduced development expenditure, new controls on current spending and improved tax collection also contributed to the outcome. However, the wage bill remained high, while service delivery to the outer islands continued to be slow due to capacity constraints. Following the completion of large development projects, capital outlays fell to an average 1.6 percent of GDP in 2003–04 from an average 4.5 percent of GDP in 1999–2002, despite continued pressing development needs. Reflecting the government's cautious approach to incurring new public debt, total public debt, including external debt, fell below 40 percent of GDP.

Against the background of a basket-peg exchange rate regime, inflation has remained subdued at just under 3 percent in 2004. Broad money growth picked up in 2004, as deposits with the banking sector rose and the net foreign assets position of commercial banks strengthened. Commercial banks' liquidity positions improved in 2004, allowing for lower lending rates, which resulted in a slight narrowing of the interest rate spread.

The external current account deficit narrowed in 2004 with the stronger performance in tourism and exports. In real effective terms, the vatu remained broadly stable over the past five years, while official reserves have recovered since 2002.

Progress has been made in strengthening Vanuatu's financial sector. Important gains in financial sector supervision took place with the passage of the International Banking Act in 2002 and the broadening of the Reserve Bank of Vanuatu's supervisory responsibilities to the offshore banking sector and the Vanuatu National Provident Fund. The state-owned National Bank of Vanuatu is now showing a small profit following restructuring in 2000. In addition, the OECD removed Vanuatu from the list of uncooperative tax havens in 2003.

The outlook is for a softening of the macroeconomic environment in 2005 and growth prospects over the medium term are not bright without a stronger policy commitment for deeper reform. Real GDP growth is expected to taper off as global commodity prices for many of Vanuatu's exports again ease, notwithstanding the expected full year impact on tourism of the increased airline capacity. Inflation is likely to edge higher with the delayed impact of higher world oil prices. On the current trajectory, without an active reform effort that addresses weak infrastructure and other sources of high business costs, real GDP growth could fall below even the current moderate levels. Given its narrow base, the economy will remain vulnerable over the medium term. Vanuatu has growth potential, especially in agriculture and tourism. Its resilience will depend on the strength of implementation of structural reforms, while the downside risks pointing to a less favorable outlook are sizeable. The recent history underscores the importance of political stability, particularly given the need to fund additional development spending through grants. Other risks include the possible absence of political commitment to reform and continued exposure to natural disasters.

Executive Board Assessment

Executive Directors welcomed the improvement in Vanuatu's macroeconomic performance over the last two years, reflected in positive growth, low inflation, a sustainable debt, and a comfortable international reserves position. Progress has been made in structural reform, especially in the banking sector.

Going forward, Directors stressed that the authorities need to focus their attention on raising per capita income growth and reducing the economy's vulnerability to shocks. Attainment of these goals will require sustained fiscal consolidation and broad-based structural reform to boost private investment and diversify the economy. Directors urged the new government to seize the opportunity provided by the current favorable economic climate to build broad support for a reinvigoration of structural reforms, in order to deliver consistently strong economic policies despite the uncertain political environment. This will, in addition, increase donor confidence in Vanuatu.

Directors welcomed the authorities' efforts to strengthen the fiscal position over the past two years, and in particular the enhanced controls on current spending and improved tax collection. However, they expressed concern that fiscal adjustment has come in part through a reduction in capital outlays that could jeopardize future economic development. Directors encouraged the authorities to maintain revenue growth through both continued strengthening of tax compliance and a reduction of tax and duty exemptions. On expenditure, the most important tasks are to reduce the wage bill, improve efficiency in education spending, and reallocate spending toward infrastructure and basic social services. Directors welcomed the continuation of the prudent public debt policy.

Directors endorsed the Reserve Bank's cautious monetary policy stance, aimed at keeping inflation low and building up international reserves. They advised close cooperation with the fiscal authorities with the aim of limiting government borrowing from the Reserve Bank. Directors considered the adjustable peg exchange rate arrangement to be broadly appropriate, while emphasizing that it demands sound macroeconomic policies and broad-based reforms to improve competitiveness.

Directors commended the strengthening of the oversight of the financial sector in the past two years, including the extension of the Reserve Bank's supervisory responsibilities to the offshore banking sector and the Vanuatu National Provident Fund. They noted that, while the banking system is sound, the level of nonperforming loans is high and should be monitored closely. Directors welcomed the important steps taken to combat money laundering and terrorism financing. They urged the authorities to enact promptly all additional legislation necessary to bring the financial sector into compliance with international AML/CFT standards, to provide adequate staff to the Financial Intelligence Unit, and to reinforce oversight of nonbank financial institutions. In light of Vanuatu's past experience, Directors cautioned against reviving a publicly funded development bank.

Directors called for a stronger effort to promote private sector development, particularly by removing impediments to business activity. Key actions would include streamlining investment procedures and upgrading the infrastructure. In addition, Directors urged the authorities to expand their restructuring efforts to all public enterprises—and to privatize these enterprises where appropriate—in order to improve enterprise efficiency and transparency and to increase competition.

Directors welcomed the improvement in the quality, coverage, and timeliness of key statistics needed for surveillance purposes, and Vanuatu's participation in the Fund's General Data Dissemination System. They encouraged further efforts to upgrade the national accounts and balance of payments statistics.

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