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STATISTICAL ANNEX

1. Executive Summary

Global economic growth continued to strengthen and broaden led by the US, China and emerging Asia in the first quarter of 2004. This strengthening is reflected by upward revisions made by the IMF in April in its 2004 world growth projections by 0.6 percent to 4.6 percent from assessments carried in September 2003. The strengthening in world economic recovery is reflected by rising demand and is in part assisted by accommodative monetary and fiscal policies of major industrial countries. Business and to some extent consumer confidence have also strengthened. There are nascent signs of recovery in the Euro area from increase in fixed investment but private consumption and the appreciation of the Euro, among others, could serve to dampen growth. GDP growth in Japan has reached a high of a decade led by external demand, from China in particular. Economic data in Australia including consumer confidence and employment gains indicate continuing solid growth albeit with some easing in household spending and housing construction industry.

Nevertheless, there remain downside risks to this growth outlook, not least from geopolitical uncertainties as demonstrated by the recent Madrid bombings and elsewhere, volatility in world oil prices, and disorderly adjustments in imbalances notably the large US current account deficit. On balance however the risks have improved significantly.

Exchange rate developments have been dominated by the depreciation of the US dollar. Adjustments in exchange rates have so far been orderly but it has concentrated on the Euro and currencies such as the Australian dollar, which is an important currency for the trade weighted basket of the Vatu.

Particularly since the Madrid bombing by terrorists the rally in financial markets have consolidated. Equity prices have risen strongly and bond spreads have dropped further. Notwithstanding the fiscal deterioration in large industrial countries interest rates continued to be low from market perception that monetary policy remains accommodative.

Rapid global recovery and currency developments have fed through to world commodity prices. Oil prices have climbed rapidly and the IMF has revised upwards prices by 8 percent to over $32 per barrel in 2004. The rise in the world prices for copra from the close of 2003 has continued into the first quarter of 2004.

In line with this, pick up in the domestic activity became more discernible in the first quarter of 2004. The Ministry of Finance and Economic Management forecast (December 2003) an improvement in GDP growth of 2.4 percent for the year as a whole. During the first quarter, activity was strengthened by a strong surge in copra and coconut oil production in response to high world and domestic prices for the products and from increased nuts felled by the passage of a cyclone in February. However, growth prospects would rely largely on the expected strengthening of the services sector, particularly tourism, to surmount the likely adverse effects of the recent cyclone on the agriculture sector in the second half of the year and continuing high world price of copra. A quick formation of a government following general elections due in July would also contribute to create the appropriate environment for growth. The annual rate of inflation decelerated to 1.9% in the first quarter of 2004 in spite of Cyclone Ivy. In reflection of the pick up in economic activity, there was relative improvement in fiscal operations which also reflected strengthened revenue collection efforts, increased donor funding and continued expenditure control measures, although looking forward these gains could be undermined by the emergence of unbudgeted expenditure items, gratuity payments, unforeseen snap elections, and cyclone related expenditures. Money supply increased sharply from increase in quasi-money, notably foreign currency fixed deposits in March 2004 but the liquidity of banks continued to be tight from lending of banks that rose sharply in the second half of

2003, leading to continued pressures on interest rates in the first quarter of 2004. Following its sharp deterioration in 2003, the current account of the balance of payments registered improvements in the first quarter of 2004 although there was a slight deterioration in the overall balance of payments position and official international reserves amounted to 4.4 months of import cover towards end-March 2004.

The monetary policy interest rate of the Reserve Bank was maintained at 6.5 percent following a review at the end of 2003. In the light of market liquidity shortage of commercial banks the Reserve Bank reduced its Liquid Asset requirement on banks from 15 percent to 12 percent in January 2004. Broadly the Reserve Bank maintained an accommodative monetary policy stance in the first quarter in terms of monetary management given the liquidity profile of commercial banks whilst it continued to maintain a tight foreign exchange guideline in the light of fragile external reserve position. The policy objectives of the Reserve Bank are the maintenance of an adequate level of official international reserves, at a minimum comfort level of 4 months of import cover and low inflation, interpreted by the Reserve Bank to be a maximum of 4 percent in annual growth rate of the CPI. At the end of March 2004, these policy objectives were achieved following developments outlined in this report.

2. Domestic Economic Developments

2.1. Real Sector

In the first quarter of 2004 the overall performance of the domestic economic activity was strengthened in two important commodity products copra and coconut oil. The up trend in copra was supply response to high world and domestic copra prices and an increase in the number of nuts felled during a recent Cyclone. The increase in coconut oil reflected the increased output of copra and high world prices for coconut oil. Whilst most sub-sectors were at cyclically low output levels, there were perceptible improvement in land and property development, driven in the most by the spill-over of property and market developments within the region, and reflected in indicators such as bank lending to housing and land development and revenue on sale and transfer of properties. While tourism is seasonally low in the first quarter its prospects within the year could improve from expected increase in airline capacities and thereby contribute to growth of the services sector. This improvement should help sustain the economy from the adverse effects of the recent cyclone on tree crops in the forth coming months. Prospects for the economy would also be assisted with continuing high world prices of copra.

Cyclone Ivy which swept through most of the country in late March had caused significant agricultural damage, although, the effects on commercial crops are expected to have an impact later towards the end of the second quarter. The rural Vanuatu population expects to experience lower production on food root crops.

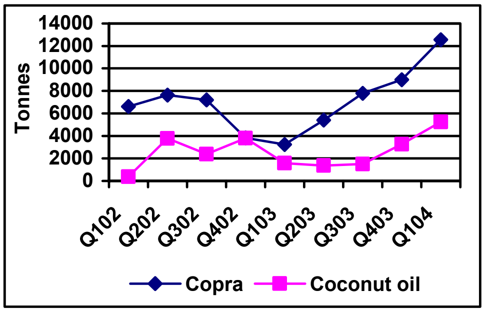
2.1a. Copra and coconut oil

Copra production in the first quarter of 2004 amounted to 12,565.8 tonnes, revealing an increase by 39.6 percent from the previous quarter. The upsurge in production level is directly in response to the high prices for copra in the domestic and export market. The current price for copra in the quarter was VT29000, while an increase from VT27000 in the previous quarter. The average world price for copra also increased in the quarter to US$417.7 from US$344 in the previous quarter.

Coconut oil production in the quarter amounted to 5,256 tonnes, improving by 61.3 percent over the previous quarter production.

The high production level corresponds to high export price and high domestic copra supply. The average world price for coconut oil is US$685 compared US$528 in the previous quarter.

Figure 1: Copra and coconut production



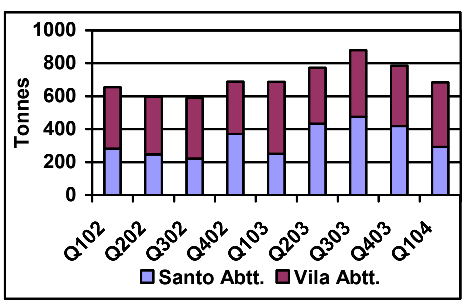
2.1b. Cocoa

Cocoa production declined sharply to 52.1 tonnes, compared to 242.9 tonnes in the previous quarter. The decline was partly due to seasonal low harvest period in the beginning of the year, and unfavourable wet conditions. Harvest is expected to significantly improve in the June quarter.

2.1c. Beef

Beef production declined by 13.0 percent from the previous quarter to 683.6 tonnes from 783.6 tonnes. The decline is associated with a decline in exports to Japan although, exports is expected to pick up later in the second quarter.

Figure 2: Beef production



The Beef sector is expect to be buoyant this year with a steady market in Australia, which began importing Vanuatu organic beef as of last year.

2.1d. Tourism

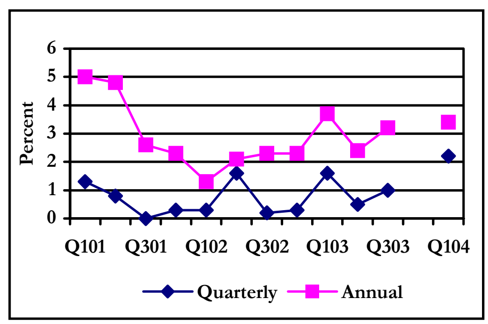
While no preliminary figures on visitor arrivals are available, the industry has indicated that the sector remains, with approximately just over 10,000 air visitor. The industry has also indicated that the current price war in the pacific region is already posing a potential threat to visitor inflows form New Zealand especially. Approximately over 70 percent of all visitors originate from Australia and New Zealand.

2.1e. Inflation

From the fourth quarter of 2004, inflation as recorded by the consumer price index (CPI) showed a minor increase of 0.4 percent.

From the twelve month ending March 2004, there was recorded inflation of 1.9 percent.

Figure 3: Inflation



The 1.9 percent reflected primarily on an increase in duty rates on alcohol beverages by approximately 31 percent in 2003, and the appreciation of the Australian dollar.

2.1f. Tropical Cyclone Ivy

Tropical Cyclone Ivy passed through important commodity growing areas of the country in late February 2004. Tree crops are highly susceptible to cyclone damage. In particular for the two major export commodities, copra and cocoa for which this report is compiled, the effect of cyclones of coconuts, takes at least a year, or two years, before normal production resumes, and at least a year on cocoa trees. However, copra production can be high in the first months because of the increase in the number of nuts felled following a cyclone.

2.1g. Areas affected by cyclone Ivy

Formed from a depression developed in the northern part of Vanuatu Cyclone Ivy followed a slow southward track that ran virtually across the entire country. The main areas affected were the provinces of Penama, Malampa, Shefa and Tafea. Of the two remaining provinces, the Sanma Torba experienced high winds and heavy rains but escaped gale or hurricane force winds.

Within the Penama Province, the islands of Maewo, Pentecost and Ambae received a lot of damage to the tree crops. Reports showed damage of coconut and cocoa trees of up to 80 percent and in the Western to Southern part of these islands Ivy fell coconut trees and broke cocoa branches.

Some parts of the Malampa Province were affected badly than others. In the West, North and South East Ambrym, devastation to cocoa is ranked at 70 per cent. Damage to coconut trees was estimated to be around the same level with trees loosing their leaves and coconut fruits battered badly. Fruits that are battered badly tend to fall prior to maturing fully, leading to reduced nuts for production. In parts of Malekula from Portintir in the South East to Lamap in the South, cocoa trees sustained damages by over 70 percent. The same is also true for coconut trees but in places where high winds were channeled along flat plains that borders mountains such as some areas in Mapest (Sarmet plantation), trees were fell. On Paama coconut trees also lost their leaves and fruits were battered by high winds. In the months ahead these fruits will fall before maturity.

Within the Shefa Province, the islands of Epi and the Shepherd Islands the extent of the damage was much like in Ambrym and Paama with lost of leaves to coconut trees. Although the southerly most province of Tafea was also hit by the cyclone, copra and cocoa production are insignificant in the areas further south of the Shepherds group with the exception of logging and some coffee production on Tanna.

2.1h. Main Production areas

The main producing areas for copra are Sanma, Malampa and Penama followed by Torba and the Shepherd Islands in the Shefa Province. However, it has also been noted that with the current lifting of the purchase of copra from the Vanuatu Commodities Marketing Board (VCMB) to private competitors within an environment of high world prices for copra, production in areas that had experienced output decline or stagnation, have picked up, particularly the Torba Province and the Shepherds Islands.

The Sanma and Malampa Provinces are the largest producing areas for cocoa with production being particularly concentrated on Aore and Malo and Malekula and there are also pockets of production within the Penama Province and the Shepherd Islands.

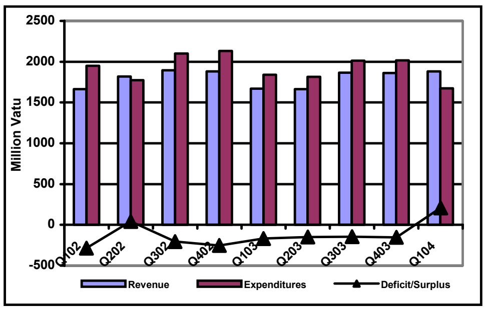
It is apparent that cocoa production in Sanma will remain largely unaffected except for pockets of areas in the Malampa Province. The main producing areas of Malampa have not been badly affected such as the Metenesel Estate and the North Western part of Malekula. The bulk of organic cocoa is produced in the province of Malampa in the areas of Atchin, PRV and Saremet or Mapest. It is possible that cocoa production from Malampa will decline slightly during the first half of the year but start to pick up in the months ahead, largely because The Metenesl Estate and the North West appears not to have been that badly affected.

2.2. Fiscal Operations

For a number of years the Government has operated on a recurrent budget deficit financed by debt roll-over, overdraft borrowing and depletion of deposits. This quarter witnessed a budget surplus as a result of improved revenue collection, continuing tight expenditure control measures and increase in donor funds. This year, the Vanuatu Government fiscal policy is again formulated on the basis of a balanced budget.

In 2004 maturing Government domestic debts are planned to be rolled over. The 2004 budget policies outlined by the budget report are maintenance of macro-economic stability through sound monetary, fiscal and exchange rate policies, strengthening of public sector to undertake core roles, strengthening government institutions and encouraging the private sector businesses.

Figure 4: Government Expenditures and Revenue.



The Vanuatu government fiscal policy targets in the Fiscal Strategy report for 2004 are inflation of 2.6 percent, real GDP of 2 percent, a strong US dollar and slightly weaker Australian dollar. It is anticipated that all grant funding will be use for projects and any surplus from the recurrent budget will be use to retire some debts. No new initiatives were introduced to boost domestic revenue.

However there is emphasis on keeping a tight control on expenditures.

For the first quarter of 2004, the central government overall fiscal operations depicted a surplus of VT236.3 million as against a deficit of VT170.1 million recorded during the corresponding quarter of 2003. This improved fiscal position stemmed mainly from a decrease of 10.7 percent in expenditures, with an increase of 12.5 percent in revenue and grants, both over the corresponding quarter of 2003.

2.2a. Revenue

During the quarter under review, overall revenue (including grants from abroad) amounted to VT1,879.0 million, 12.5 percent higher than the level attained in the corresponding quarter of 2003. This improvement is attributed to increase in tax revenue by 16.2 percent over the corresponding quarter of 2003, reflecting strengthen collection efforts, strengthened economic activity and increase donor funding.

Of the budgetary account, actual recurrent revenue for the first three months of 2004 accounted for 25.0 percent, which is equivalent to the quarterly revenue collection expected over the year.

Revenues from non-tax sources which constituted the remaining 6.2 percent of total recurrent receipts, declined by 4.6 percent from the corresponding quarter of 2003.

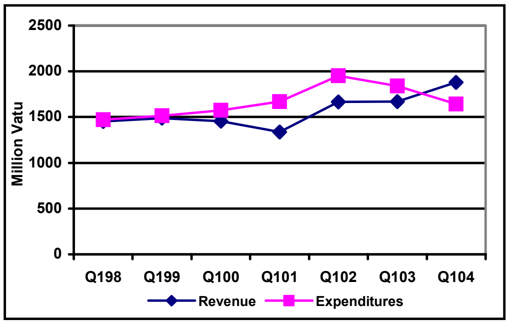
Grants received for this quarter totaled VT107.4 million. The increase in grant aid for this quarter is partly attributed to Cyclone Ivy relief effort being funded from abroad.

2.2b. Expenditures

Total outlays showed a decrease of 10.7 percent as compared to the corresponding quarter of 2003. This is due principally to decreases in both recurrent and capital expenditures by 8.2 percent and 61.9 percent, respectively. Total expenditures and net lending to date totaled 22.4 percent of the budget.

By economic classification, salary and wages, which accounted for 58.5 percent of total recurrent expenditures decreased by 1.2 percent from the corresponding quarter of 2003. This decrease is in line with normal payments of salaries and wages for both political appointees and civil servants under the public service commission.

Figure 5: Recurrent Revenue & Expenditures for First Quarters 1998 - 2004.



2.2c. Financing

A fiscal surplus of VT236.3 million was incurred for the first three months of 2004. However, cash flow difficulties of the Government have continued reflected by continuous recourse to the overdraft facility at the Reserve Bank, roll-over of domestic debt and decline in Government deposits.

In the first quarter the Government rolled over VT160 million of maturing bonds to commercial banks including VT40 million previously held by the Reserve Bank of Vanuatu. As a result commercial banks net claims on the Government deteriorated by 36 percent from the previous quarter. However, over the first quarter of 2003, the overall net claims of the Government on the banking system showed an improvement of 24 percent.

2.2d. Outstanding Government Debt

As at end-March 2004, total outstanding public debt stood at approximately VT13.3 billion, of which 26.3 percent, or VT3.5 billion is domestic debt. Total estimated outstanding public debt represents 37.2 percent of nominal GDP.

Domestic debts in terms of bond holding and domestic loans total VT3,259.1 million. From this total bond holding, the RBV has a share of 26.5 percent, commercial banks 24.9 percent, corporate bodies 48.5 percent and others 0.1 percent.

Total external debt of the country stood at approximately VT9,778.0 million and representing 73.7 percent of total public debt. External debt consists of bilateral and multilateral loans arrangement.

2.3. Monetary Developments

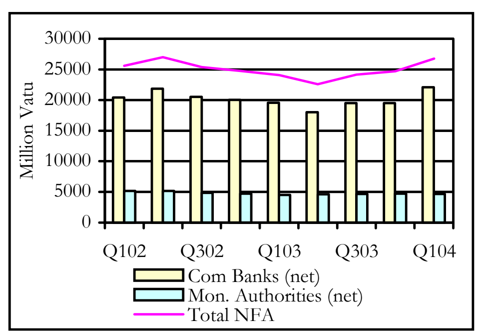
Total money supply (M4) grew for the third successive quarter in March 2004 following a turnaround from negative growths in the first two quarters of 2003. The growth in M4 by 5.3 percent from the preceding quarter, and 7.0 percent from the corresponding quarter of last year stemmed from expansions in both net foreign assets (NFA) and domestic credit.

2.31. Determinants of Money

2.31a. Net Foreign Assets

Total NFA increased to VT26,768.3 million, representing growths of 8.4 percent from the preceding quarter and 11.3 percent from the same quarter of last year. This up trend was mainly sourced from commercial banks' NFA position, which rose by 10.8 percent from the previous quarter, whereas monetary authorities NFA declined by 1.6 percent.

Figure 6: Net Foreign Assets



Monetary authorities' NFA growth fell to VT4,661.4 million during the first quarter of 2004, underpinned by net outflows of foreign exchange reserves. The level of foreign reserves in March 2004 is sufficient to cover 4.4 months of imports in contrast to 4.5 months in the previous quarter.

Commercial banks' NFA position grew by 10.9 percent and 13.1 percent from the preceding quarter and the corresponding quarter of 2003, respectively, to VT22106.9 million at the end of the reviewed quarter. This development was caused by an increase of 6.3 percent in commercial banks foreign assets and a 6.1 percent contraction in commercial banks' foreign liabilities.

2.31b. Domestic Credit

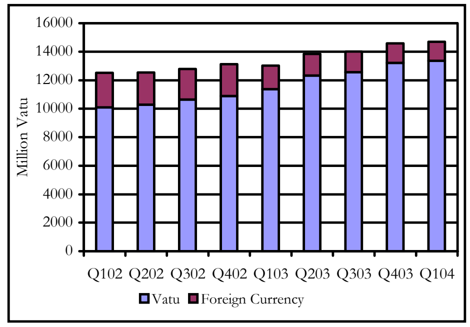
Domestic credit expanded from the previous quarter by 1.3 percent and 5.6 percent from last year to VT16,106.8 million. Increases in net claims on the government, claims on non-financial public enterprises and claims on private sector contributed to this growth.

Following its improvement over the December quarter, the government's net lending position vis-à-vis the banking system deteriorated by 10.3 percent at the end of the reviewed quarter. While the government's net position with the monetary authorities improved by 9.2 percent, its position with the commercial banks deteriorated by 35.7 percent. This deteriorating trend was contributed by a) an increase in commercial banks' holding of government bonds by VT40 million in March and b) the reclassification of provincial deposits from government deposits to deposits of municipalities by one bank. The improvement in its position with the monetary authorities was attributed to the maturing of RBV's bond holding worth VT40 million in March. On the other side of the balance sheet, government deposits with the Reserve Bank have also increased by VT113.8 million during the quarter.

Growth in Private sector credit was slow during the March quarter depicting an increase of 0.6 percent to VT14,830.6 million. Over the year private sector credit grew by 9.8 percent.

Quarterly increase in loans and advances to businesses was responsible for the overall growth in private sector credit. In contrast, loans and advances to individuals & households and others categories registered declines of 24.3 percent and 39.5 percent, respectively.

Figure 7: Private Sector Loans



The aforesaid trend in private sector credit was also reflected by higher commercial bank lending to transport sector which increased by 4.8 percent, personal sectors (for housing and land purchases 10.7% and other personal 1.1%) and miscellaneous sectors, 43.0 percent.

Personal loans continued to account for the largest share of private sector credit, increasing its share by 0.10 basis points to 23.6 percent during the reviewed quarter. Construction sector followed with 18.2 percent, losing 0.5 points from the previous quarter. Housing and land purchases claimed third position with its share increasing by 1.5 points from the previous quarter to 17.0 percent. Distribution received the last highest share of 11.3 percent losing 0.9 points from the preceding quarter.

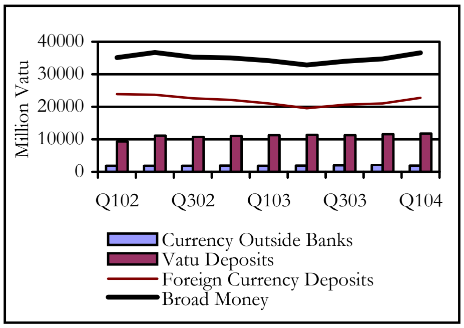
2.32. Components of Money Supply

Money supply growth during the first quarter was principally attributed to an increase in quasi-money, conversely narrow money (M1) contracted.

Narrow money abated by 1.6 percent to VT11,993.0 million during the reviewed quarter. This trend was underpinned by all its components, of which currency outside banks and demand deposits fell each by 5.9 percent and 0.6 percent. A negative growth of 2.6 percent in demand deposits denominated in local currency contributed the overall decline in demand deposits.

Demand deposits denominated in foreign currency, on the other hand, increased by 0.6 percent. Regardless of this decline, narrow money recorded an annual growth of 5.8 percent.

Figure 8: Money Supply



Quasi-money portrayed a quarterly growth of 8.9 percent and an annual growth of 7.6 percent to equal VT24,556.4 million during the first quarter of 2004. This development stemmed from both its components of which, time and savings deposits denominated in local currency expanded by 3.6 percent and that denominated in foreign currency by 11.7 percent. The aforesaid development in quasi-money could be partly explained by competition in the market for deposits.

2.33. Deposits with Commercial Banks

Total deposits of residents (excluding government deposits) held with commercial banks grew further by VT1,955.4 or 6.0 percent to VT34,575.5 million during the first quarter of 2004. This level was also higher by 7.0 percent against the same quarter of last year. The growth was largely associated with an increase of 8.4 percent in foreign currency deposits and to a lesser extent local currency deposits which increase by 1.6 percent.

In terms of ownership of deposits, individuals accounted for 51.1 percent share, private businesses assumed the second largest share of 37 percent, while both non financial public enterprises and others category each claimed 6.0 percent share.

2.34. Interest Rates

Both deposits and lending rates of commercial banks exhibit movements in their respective ranges as compared to the previous quarter.

For savings deposits, the interest rate range remained between 0.50-2.00 percent as in the earlier quarter.

Under fixed deposits, interest rates on deposits of one-month maturity and 2-3 month maturity were changed to a new range of 2.00-6.00 percent, respectively, from 1.50-6.00 percent in the previous quarter. For the 4-6 months category, interest rate range moved from 1.50-6.00 percent in December to a new range of 2.25-5.00 percent in March 2004. Interest paid on deposits between 7-12 months moved to 2.75-6.00 percent, relative to 1.75-6.00 percent in the previous quarter. For categories of deposits over 12 months, the interest rate range shifted from 1.75-4.75 percent to 2.75-7.00 percent. Interest paid on deposits of 7 days category remained at range of 1.00-3.50 percent as in the previous quarter.

As a consequence of the above mentioned movements in fixed deposit rates, weighted average interest on fixed deposits increased by 0.14 basis points to 5.16 percent during the reviewed quarter, which was associated with attractive interest rates offered on fixed deposits during the quarter. Weighted average interest rate for total bank deposits increased by 0.17 points to 2.35 percent.

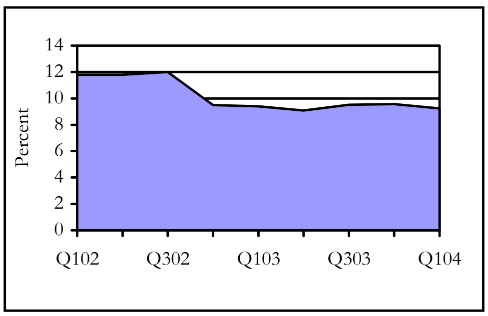
Commercial banks' lending rates ranges indicated slight fluctuations during the reviewed quarter. For commercial loans, its lower interest rate declined by 3.5 basis points to a range of 10.00-16.00 percent. Lower interest rate limit on lending to manufacturing/industries and agricultural loans were both down by 0.5 basis points each to a new range of 9.50-16.00 percent.

Lower interest rate on consumer credit and personal lending both increased by 2.25 points each to a new range of 12.00-25.00 percent, respectively. Housing loan rates reached a new range of 8.85-14.75 percent relative to 5.90-18.50 percent during the previous quarter. The aforesaid fluctuations triggered a decline of 0.13 basis points in weighted average rate for bank loans to 11.60 percent. The interest rate on inter-bank lending was maintained at 5.50 percent.

2.35. Interest Rate Spread

Figure 7 illustrates the quarterly developments in interest rate spreads for the last two years.

Figure 9: Interest Rate Spread



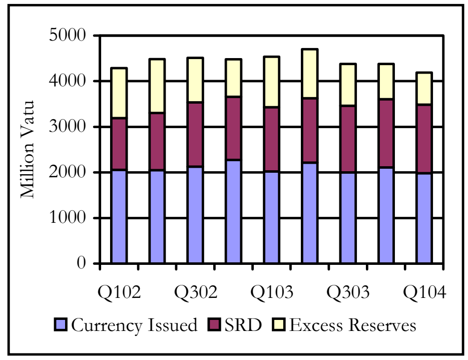
The effect of the increase in weighted average deposits on total bank deposits and the decline in weighted average deposits for total bank loans caused the interest rate spread to narrow by 0.30 basis points to 9.25 percent at the end of the reviewed quarter.

2.36. Reserve Money

Reserve money, which comprises currency outside banks and commercial banks deposits with the Reserve Bank (Statutory reserve deposit (SRD) and excess reserves), narrowed to VT4,512.6 or by 6.5 percent from the previous quarter. This trend was due to declines of 5.9 percent and 9.1 percent in currency outside banks and excess reserves, respectively. SRD on the other hand grew marginally by 0.4 percent.

Reserve money also declined by 2.5 percent against the previous years level.

Figure 10: Components of Reserve Money

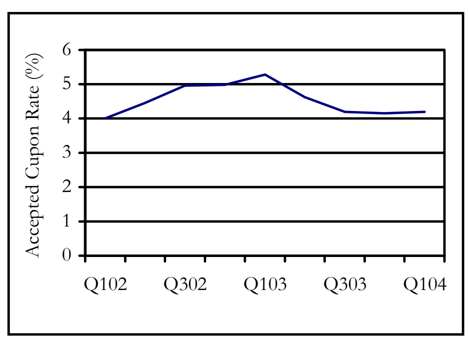


Excess reserves contracted as a result of a) liquidity destruction on behalf of the government as reflected by its improved position with the Reserve Bank and b) net outflows of foreign reserves during the quarter. The development in SRD is explained by the slight increase in residents' average vatu deposits and half of demand deposits in foreign currency held with commercial banks during January and February 2004.

2.37. Reserve Bank Notes

During the first quarter of 2004, outstanding RBV notes reached VT225 million representing a net increase of VT125 million from the preceding quarter. During the quarter the Reserve Bank floated a total of VT675 million in

Figure 11: 91-days RBV Notes Yield



Notes, of which VT500 million were accepted. Of these, VT100 million was allotted each to maturities of 91-days, 63-days and 14-days and VT200 million was allocated to the 28-days category.

Of the latest RBV Notes issued in March 2004, the weighted average yield on the 91-day and the 63-day notes was 4.19 percent, respectively. Both noted increases of 0.04 basis points against the December 2003 issues. The average yield on the 28-day Notes declined by 0.05 points to 4.10 percent. The yield for the 14-days Notes was 4.00 percent. In general the yield on RBV notes indicated a slight upward trend from the previous quarter as reflected by continuous tight liquidity in the financial system.

2.4. Financial Development

2.41. Total Local Expenditures

Total estimated local expenditures of Finance Centre institutions recorded as quarter to quarter increase of 15.3 percent and an annual decline of 25.0

percent. The decline from the corresponding quarter of 2003 was attributed to a decrease of 86.0 percent in total capital expenditures.

From the estimated total expenditures of VT809.2 million, the banking sector continues to dominate with 53.5 percent, followed by legal firms and offshore institutions with 19.4 percent, accounting firms with 17.7 percent and trust and insurance companies with 9.4 percent.

Estimated taxes and levies paid by Finance center institutions and other private companies, showed an annual decrease of 3.0 percent. The decline came from a quarterly decline of 75.8 percent in import duties. However, an increase of 218.9 percent was noted from the last quarter of 2003.

There were decreases in total estimated capital expenditures of finance institutions and other private sector institutions by 6.9 percent from December quarter 2003 and 86.0 percent from the corresponding quarter of 2003. This decrease was recorded in all the sectors.

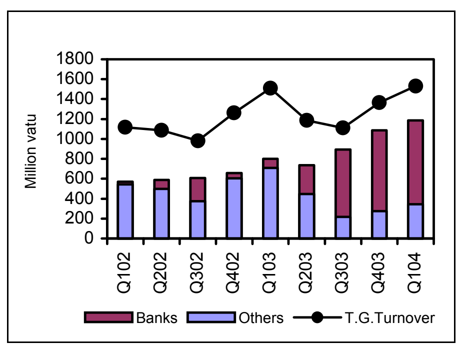
Estimated Value of total assets of finance Centres and other private sector institutions increased by 22.3 percent from the previous quarter and 22.5 percent from the corresponding quarter of 2003.

Estimated number of employees in finance centre institutions increased to a new high of 559 from 530 at end 2003. Ni-Vanuatu employees made up approximately 85.7 percent of this total.

2.42. Total Gross Turnover

Estimates of gross earnings of Finance Centre Institutions showed an increase of 12.2 percent from the previous quarter and 1.3 percent from year ago level. This increase was attributed to increases in total income of commercial banks by 9.0 percent and of accounting, legal and offshore institutions by 72.4 percent from December 2003.

Figure 12. Total Gross Turnover (Finance Centre Institutions)



Total estimated net foreign exchange earnings increased by 159.1 percent from December quarter 2003 and decreased by 35.6 percent from the corresponding quarter of 2003. The increase was attributed to increases of net foreign exchange earnings of commercial banks by 152.0 percent, trust and insurance companies of 46.4 percent, accounting, legal and offshore institutions of 105.3 percent and government's foreign exchange receipts from exempt institutions of 531.3 percent from the December 2003.

2.43. Shipping Registrations

The shipping registry recorded an increase in the number of ships to a new high of 584 vessels, compared to 563 and 526 recorded during the previous quarter and year ago level. The increase

was attributed to the addition of 35 new ships to the registry, while 14 ships de-registered.

However, there was a decline in net shipping fee figures by 2.9 percent from VT113.0 million recorded during the corresponding quarter of 2003.

The average sized vessel at the registry had increased slightly to just over 4,400 GRT. The increase is attributed to the reduction of initial registration fees for larger tonnage vessels towards the end of 2003.

There are certain issues to resolve between the Vanuatu government and registry in New York regarding reciprocal port tax treaties, fishing legislation and regulations, regional fishing oversight bodies and sanitary certification of the fishing fleet. According to the international shipping registry office in New York, action on the above is needed to ensure the growth of the registry.

2.44. Company Registration

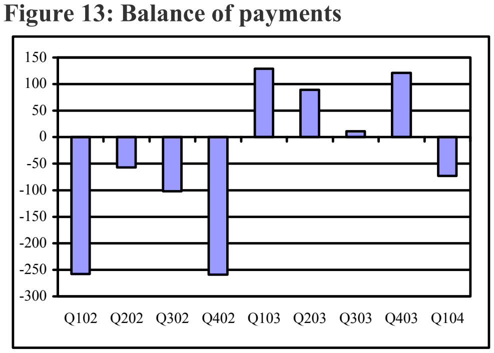
The number of companies registered with the Vanuatu Financial Services Commission (VFSC) recorded a total of 5,772 companies in the first quarter. This represents net decreases by 17 from the fourth quarter of 2003, and by 150 from March quarter of 2003. The decrease was attributed to the de-registration of 123 companies, while 113 new companies registered with the VFSC.

From the total number of companies, international[1] companies represent 74.2 percent, local companies made up 22.9 percent, while exempt[2] and overseas[3] companies accounted for 2.9 percent.

2.5. Balance of payments and International Investment Position

The overall external balance of payments depicted a deficit of 73 VT million in the March quarter (fig 16). An improvement in the current account by around 50 percent could not offset outflows of investment in the financial account. The strengthening of the current account balance reflects improvement in the trade balance (12 %) investment income (32%) and high inflow of transfers. However, the services account dropped by (18%) reflecting reduced tourism earnings. In the financial account net outflows was mainly caused by increase in overseas placing of foreign assets by major enterprises.
The net errors and omissions recorded 61 million vatu representing, unrecorded outflows and revaluations.

Figure 13: Balance of payments

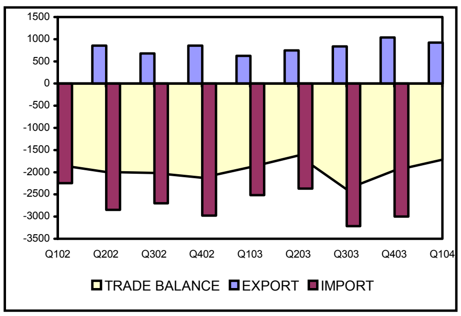


2.51 Trade balance

[1] Companies incorporated under the international Companies Act and do not operate business in the country.
[2] Companies registered or re-registered as exempt companies and do business overseas.
[3] Companies incorporated outside Vanuatu and do business in the country.

The provisional merchandise trade balance registered its second consecutive improvement commencing in the fourth quarter of 2003, witnessing a recovery of 14.14 per cent this period. Over the same period in 2002 it deteriorated by 8.14 per cent. The current positive development over the previous period is attributed to a reduction in import bills.

Figure 14: Merchandise Trade



2.51a Exports

The quarter on quarter overall level of exports slumped 12.08 per cent. This slow down reflects the damage caused to the production of major export commodities by the cyclone in early February. The effects of this can be seen in the increase in the production of copra and a reduction in cocoa, the two major crops susceptible to cyclone damage. The current increase in copra exports signals a potential reduction copra production in the second half of the year.

Copra exports marked at VT121 million compared to VT76 million recorded at the end of March 2003. This accounted for 37.19 per cent increase from previous quarter and a huge upsurge of 60.33 per cent during the same period a year ago. The large number of nuts that were felled by cyclone Ivy caused this large increase.

Cocoa exports had a beating contracting to VT12 million compared to the previous period of VT62 million. Compare to the same period a year ago export is still down by 25 per cent.

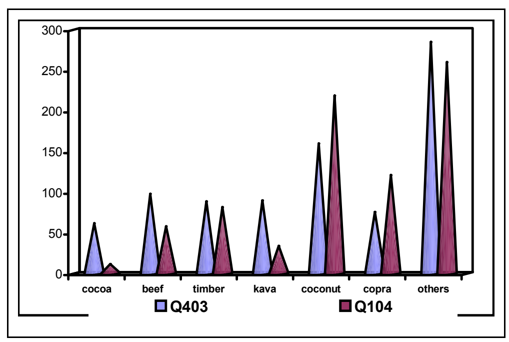
Down turn in kava exports bottomed out in the second quarter of 2003 and started an upward trend hitting a high of VT90 million. However, this period exports fell to Vt34 million. A year ago exports amounted to VT39 million.

Timber exports earnings registered an increase from Vt71 million to Vt82 million this period. Compared to a year ago exports amounted to Vt26 million.

Beef export earnings declined registering Vt58 million from Vt98 million recorded last period. While a year ago it is still higher by Vt9 million.

Coconut crude oils made a significant contribution to export earnings by registering Vt219 millions compared to Vt160 million the previous quarter and Vt90 million a year ago.

Fig 15: Major Domestic Exports Q403/Q104



2.51b Imports

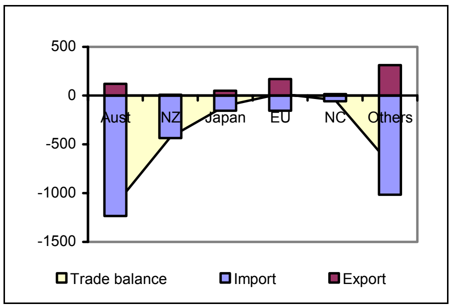
The level of overall provisional imports (c.i.f.) declined by 14.9 per cent while imports for home consumption also declined by 12.87 per cent. The declines in overall imports reflect marked declines in imports of food and live animals by 57.91 per cent and imports of mineral fuels by 117.69 per cent. The likely explanation for the huge dropped in mineral fuels imports can be explained by large imports during the second half of 2003, which helped retain the stock throughout this period.

Individual items that registered increases were chemicals (13.03 per cent) and machinery equipment and transport (14.3 per cent).

2.52. Direction of trade

At the end of March the six imports originating countries were Australian New Zealand, Fiji, Singapore, France and Japan
At the end of March, the four main destinations of exports were EU, Australia, Japan and New Caledonia.

Figure 16: Major Trading Partners



2.53 Services Account

The reduction in services receipts reflected reduced tourism earnings, which is the major component of this account. Tourist arrivals are usually low in the first quarter and there has been a reduction in tourist arrival from New Zealand. due to current competition of air fares in New Zealand. Transportation receipts recorded almost the same level as last quarter while most items in other services dropped. Services payments also fell by 6 percent reflecting reduction in transportation and other services.

2.54 Income Account

Income received from direct and portfolio investment remained low, whereas income received from other investments such as deposits and loans

are large and had increased by 15 percent in the quarter review. On payments, compensation of employees and other investment both expanded while direct investment reinvested earnings dropped by 15 percent.

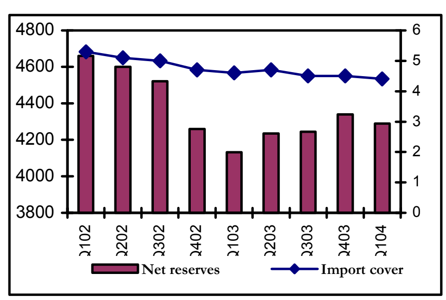
2.55. Transfers

Inflows of current transfers rose significantly by 84 percent during the quarter with inflows of official grants for government increased almost 100 percent. Technical assistance, aid in cash and kind all recorded increases. Aid in kind partly reflects assistance for Cyclone Ivy relief. Private sector transfers also recorded an increase. Payments out of this account dropped by 15 percent caused by reduced net premiums. Capital transfers had a marginal increase with receipts and payments recorded increase and decreases respectively.

2.56. Financial Account

The Financial account was again in surplus in the March quarter. Inflows of foreign direct investment and external borrowing contributed to the above surplus. These offset increases in both portfolio and other investment assets.
Portfolio investment assets increased following a significant drop in the last quarter. The current increase probably reflects purchases of securities by financial institution. In the first quarter there was a record of portfolio investment liability, which has rarely been recorded in the past.
In other investment, assets further increased, offsetting increased in liabilities. On Assets, a large increase in currency and deposits i.e. deposits of non-residents was recorded and loans offsetting given to non-residents, which dropped significantly.

Fig 17: Net official reserves & Import cover



The above developments led to a decline in official reserves by VT73 million at end March 2004. The net official reserves of VT 4290 million were equivalent to 4.4 estimated months of import cover in the first quarter of 2004.

2.6. Exchange Rate Developments

This quarter begins with various global economic developments after the US economy had taken steps to avoid a possible deflation during the last half of 2003 by cutting interest rates to a record low and introducing the Bush tax policy.

In January the Federal Reserves still maintained its official interest rates locked at 1 per cent although there were marked improvements in the US economic data. However, a report released by a Bank for international settlements indicated that OPEC countries and the Chinese Banks were repatriating funds at an accelerated rate from financial centers such as the US and UK. And also during this period a boost for the green back on the news of Saddam Hussein's capture in Iraq, similarly the Aussie dollar was given new heights spurred by the comments from the Governor of RBA that the economy will grow by 4.5 per cent in mid 2004.

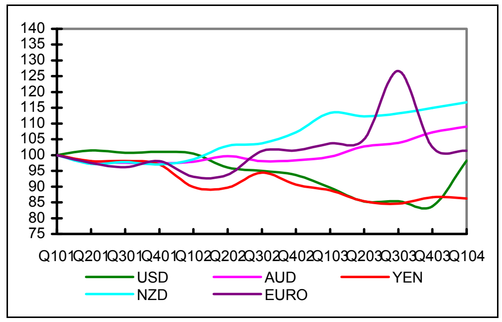
In February the G7 Finance Minister's meeting heard that the global economic

recovery has strengthen and the level of risks have diminished. And in the Pacific region the New Zealand Central Bank raised interest rates unexpectedly because inflation was accelerating amid consumer spending and a housing boom.

These events had impacted directly on the exchange rate of Vatu against its main trading partners. Thus, indicating a stronger Vatu against the US dollar (5.00 per cent) and Japanese Yen (3.30 per cent) while weakening against Sterling pound (2.68 per cent), Aussie dollar (1.91 per cent), New Zealand dollar (2.80 per cent) and Euro dollar (0.23 per cent) comparing this quarter's average rates to the previous period.

Comparing the quarter on quarter closing rates, Vatu appreciated against the US dollar (0.02 percent), Japanese yen (2.04 per cent) and Euro dollar (2.34 per cent) while depreciating against Aussie dollar (0.24 percent), Sterling Pound (1.37 per cent) and New Zealand dollar (1.11 percent).

Figure 18: Exchange rate movement of Vatu against major currencies (Index: 2001 = 100)



The current period's closing rates compared to a year ago indicated Vatu appreciating against the USD (17.68 per cent), Sterling Pound (2.69 per cent), Japanese yen (5.94 percent) and Euro dollar (0.95 percent) while depreciating against the Aussie dollar (8.90 and New Zealand dollar (4.27 per cent).

Vatu peaked against the US dollar at 107.00 on 18th February while recording its lowest at 112.11 on March 18th. During the same period, Vatu against the Australian dollar recorded the highest at 82.34 on March the 12th while, recording the lowest of 85.44 on the 18th of February.

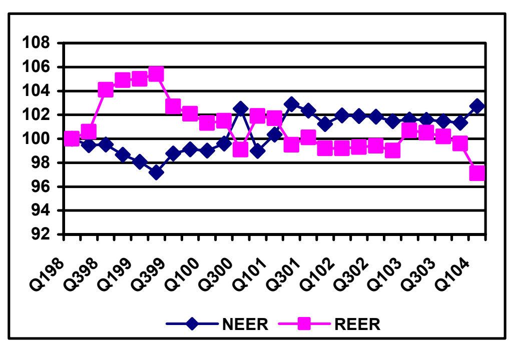
Exchange Rates of Vatu against major trading partners' Currencies

Period	USD	GBP	AUD	JPY	NZD	EUR
Average for 4th Qtr 2003	109.64	201.52	83.93	1.0233	73.98	137.10
Average for 4th Qtr 2003	115.09	196.11	82.33	1.0572	71.91	136.78
% Change	-5.00	+2.68	+1.91	-3.3	+2.80	+0.23
Closing rate on 31.03.04	109.64	201.52	83.93	1.0233	73.98	137.10
Closing rate on 31.12.03	111.81	198.76	83.73	1.0442	73.16	140.31
Closing rate on 31.03.03	129.02	206.95	76.46	1.0841	70.82	138.40
Quarterly % Change	-0.02	+1.37	+0.24	-2.04	+1.11	-2.34
Yearly % Change	-17.68	-2.69	+8.90	-5.94	+4.27	-0.95
Low for 1st Quarter	112.11 (Mar 18)	205.70 (Mar 24)	85.44 (Feb 18)	1.0585 (Mar 30)	75.91 (Feb 18)	140.45 (Jan 12)
High for 1st Quarter	107.00 (Feb 18)	197.37 (Jan 19)	82.34 (Mar 12)	0.9808 (Mar 8)	72.08 (Jan 20)	134.34 (Mar 4)

2.7. Nominal and Real Effective Exchange Rate

The development of the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange rate (REER) from 1998 to March 2004 is depicted in the below graphs. Following a slow decline trend in 2003 closing the year by 101.34, the NEER shot up to 102.74 by end March 2004. This indicates that, based on the development of the exchange rates of the vatu, Vanuatu external competitiveness signaled an appreciation. However, the REER corrected for price developments on the other hand, moved further downward to 97.1 at end March 2004., reflecting a vatu depreciation. In terms of trade, the deprecation makes exports more attractive with imports at a disadvantage leading to more domestic production, which determines the overall competitiveness of Vanuatu. Thus in March quarter of 2004, Vanuatu's International competitiveness improved with Vanuatu having more favourable price performance compared to its major trading partners.

Figure 19: Nominal & Real Effective Exchange Rate



3. Banking Supervision

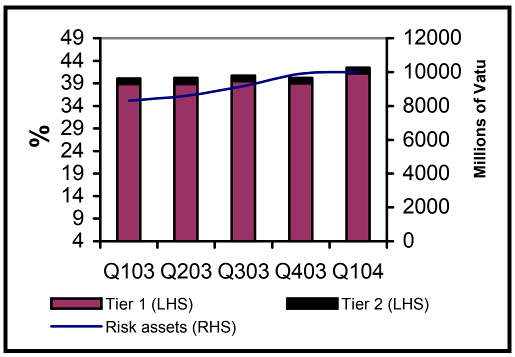
3.1. Domestic Banks

3.1a. Capital Adequacy

The industry's capital adequacy level remains at a relatively comfortable level. Compared to December 2003 quarter, bank's aggregate capital base increased 14 percent to Vt4.2 billion (Vt3.7 billion, Dec '03). The increase in capital resources combined with only a slight increase in risk-weighted assets over the quarter to Vt10 billion, resulted in the industry capital ratio increasing to 42.4 percent.

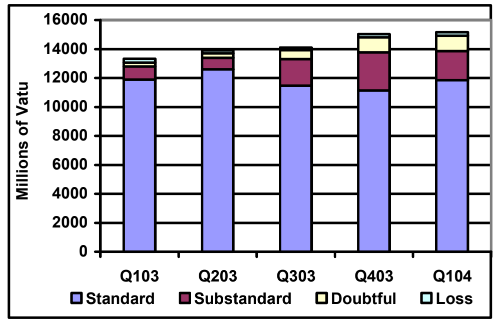
3.1b. Impaired Assets

Figure 20: Total Banks Capital Adequacy



This quarter recorded no significant improvement in asset quality position from the previous quarter. Of the total lending assets of Vt15.2 billion, impaired assets (doubtful & loss loans) account for 8.7 percent (Vt1.3 billion) and are equivalent to 31 percent of industry's aggregate capital base. Standard and Substandard loans accounted for 78 percent and 13 percent respectively of total exposures. Refer to graph below. The aggregate security cover recorded at Vt10.7 billion, a slight increase from Vt10.6 billion reported in December 2003 quarter.

Figure 21: Total Banks Composition of Lending Assets

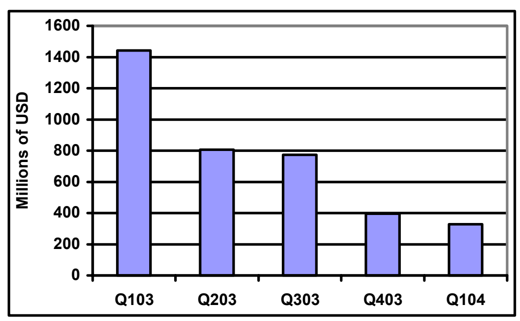


3.2. Offshore Banks

3.2.1. Balance sheet

Offshore banks continue to show declining trend in balance sheet footings reflecting the fall in number of banks licensed under the new International Banking Act to 9 banks. Total assets recorded for the quarter stood at USD328 million, a drop of 17 percent (USD395 million, Dec '03). Refer to graph below. The main factor behind the decline is a 31percent fall in loans and advances over the quarter to USD217 million.

Figure 22: International Banks Total Assets



In terms of liabilities, the banks continue to maintain bulk of their liabilities in deposits from corporations. Total deposits accounts for 81 percent (USD266 million) of total liabilities.

CHRONOLOGY OF MAJOR EVENTS

NO.	BRIEF DESCRIPTION OF EVENTS	EFFECTIVE DATE
1.	Bank Supervision Policy Guideline 3 – Supervision of the Adequacy of Liquidity of Banks – requires domestic banks to meet a minimum Liquid Assets Requirement (LAR). The purpose of the LAR is to ensure that each domestic bank holds a stock of cashable, undoubted assets, which, with the Reserve Bank's approval, can be quickly converted into cash in extreme circumstances. Such stock is additional to the liquid assets which each bank needs for management of its day-to-day liquidity needs. Banks are expected to meet the Liquid Assets Requirement at all times. Following a review of the Liquid Asset Requirement (LAR), the Reserve Bank of Vanuatu has decided to reduce the requirement from 15 percent to 12 percent effective 2 January 2004.	December 23, 2003
2.	The Vanuatu government has recorded its highest total import value of VT249,274,761 in duty exemptions to the manufacturing and processing sectors in 2003. Twenty-two companies in the two sectors benefited from the government duty exemptions. Director of external trade and industries reported that these huge concessions, which is three times greater than the 2002 figures. The 2003 total exemptions is by far the highest and demonstrate the trend where manufacturers and processors are gradually importing large and heavy-duty machineries into Vanuatu	January 23, 2004
3.	Visitor arrivals have been on a rise since July 2003, compared to 2002. August figures increased by 3.0%, September by 17.4% and November by 19.0% and 2.1% increase in December 2003 with a figure of 4734 visitor arrivals. Overall in 2003 recorded an increase total of 50,400 visitor arrivals compared to 2002 with 49,462 an increase of 1.8%. The national statistics office (NSO) has also confirmed that more than 70% of the visitor arrivals for the above period come for holiday, the rest are visiting families and friends, and for business. Cruise ship arrivals increase in December 2003 with 7,545 compared to a 5,237 in the previous year. This	February 12, 2004

was a result of seven cruise ships visits in December 2003 compared to 3 visits in the same month in 2002.

The Vanuatu Tourism Office's (VTO) General Manager says they are targeting 52,000 plus tourists for 2003. The tourism office is optimistic that with the recent addition of the ATR42 aircraft to New Caledonia, this will open up the market from Asia, mainly Japan and France to Vanuatu. New boutique resorts under construction and new sea activities added to the inventory widens Vanuatu's product appeal to these markets. VTO's marketing representatives in Australia, New Zealand, New Caledonia, Japan and USA are geared up with marketing activities to grow awareness and increase visitor numbers to the country. With the extra P&O cruise ships visits and other European and Asian cruise ships calls to Vanuatu will help boost awareness and increase repeat visitors to return to Vanuatu for longer holiday with friends and families.

4. Vanuatu made a break-through in the Melanesian Spearhead Group (MSG) trade agreement to introduce a reduction in tariffs on Schedule 1 of the MSG Trade Agreement. This breakthrough means "the country will attract a high import duty rate of 35% compared to other member countries who will start with the agreed 20% duty rate for every product coming into Vanuatu for a 15 year period until it reaches a zero percent in 2015," a senior trade officer of the Vanuatu Government reported. March 30, 2004

Vanuatu's push for two separate reduction tariffs or maximum rate of duty on exempted products under the Negative Listing arrangement is bound to boost government revenue and protect local industries for up to 15 years, when they would be expected to be ready for competition from outside. For export duty, Vanuatu along with other member countries agreed to a 20% duty rate when they export their products into other MSG countries.

INTERNATIONAL BANKING ACT NO. 4

The Reserve Bank of Vanuatu wishes to advise that with the enactment of the International Banking Act No.4 of 2002 (the 'Act'), the following existing licensees have applied under Section 5 (1) of the Act and were granted a license to carry on international banking business after 31 December 2003:

1. Vianka Bank Limited
2. National Deposit Bank Limited
3. Le Meignen Mirabaud & CIE Banquiers Privee Limited
4. Nautilus International Bank Limited
5. Abbey Mercy Bank Limited
6. IBA Bank Limited
7. GSP International Bank Limited
8. United Investment Bank Limited
9. Garrision Bank Limited

The Reserve Bank also advises that the following international banks licenses were either revoked or lapsed.

1. Asian Bank Limited
2. Bank Of Central Pacific Limited
3. Bank Of Commerce (Micronesia) Limited
4. BEA Pacific Bank (Vanuatu) Limited
5. European Private Bank Limited
6. Global Trading Bank Limited
7. Metrobank International Limited
8. Multinational Bank (Vanuatu) Limited
9. Pan Pacific Development Bank Limited
10. RVC International Bank Limited
11. The Mandarine Banking Corporation Limited
12. Titan International Bank Limited
13. Venezuela Interbank Limited
14. Equity Investment Bank Limited
15. Templar Ethical Bank Limited
16. Asia and Pacific Commercial Bank Limited
17. Asia Credit International Bank Limited
18. Bank Fiduciaries Limited
19. Bank Tourelle Limited
20. BNP Paribas SA
21. General Pacific Bank Limited
22. Liu Chong Hing Bank (International) Limited
23. Pacific Bank Limited
24. Pacific Orient Bank Limited
25. The Globalgate E-Commerce Bank Limited.

International banks which continue to conduct banking business after 31 December 2003 without a valid banking licence will be in breach of the International Banking Act.

THE ASSOCIATION OF FINANCIAL SUPERVISORS OF PACIFIC COUNTRIES (IN COLLABORATION WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE, PFTAC)

The Association of Financial Supervisors of Pacific Countries (AFSPC) welcomed the Cook Islands and the Republic of Palau as new members at its annual meeting held recently at the Reserve Bank of Fiji. The eight current member countries – Fiji, Federated States of Micronesia, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands , Tonga and Vanuatu – also voted unanimously to invite Japan and the State of Hawaii to join Australia and New Zealand as Observers.

A key outcome of the meeting held on 21 November 2003 was the adoption of a Memorandum of Understanding (MOU) to guide the operations of the AFSPC. The MOU has been endorsed by the Governors and Ministers of member countries.

Elections ensued with the appointment of Mr Peter Tari (Deputy Governor of the Reserve Bank of Vanuatu) as Chair and Mr Wilson Waguk (Banking Commissioner of the Federated States of Micronesia) as Deputy Chair. Fiji will take on the role of Executive Director of the AFSPC, and the position will be held by Mr Inia Naiyaga, Chief Manager, Financial Institutions Division of the Reserve Bank of Fiji.

As Secretariat to the AFSPC, PFTAC will identify and pursue initiatives to further the objectives of the AFSPC to ensure that the "voice of the Pacific" is heard in international forums where financial supervisory issues are debated.

The meeting was preceded by a Regional Workshop on the New Basel Capital Accord, Corporate Governance and Credit Risk Management. The Workshop was organised by PFTAC in collaboration with the Finanical Stability Institute (FSI). Speakers for the Workshop included the Director of the FSI, and representatives from the Australian Prudential Regulation Authority, the International Monetary Fund, the Office of the Superintendent of Financial Institutions, Canada, and local industry. Twenty three participants from nine Pacific Island countries, plus observers from the Reserve Bank of New Zealand and the State of Hawaii Division of Financial Institutions, attended the Workshop.
Funding for both the meeting and the Workshop was provided by the administered account for selected Fund activities of the Government of Japan.

A copy of the Memorandum of Understanding and the Workshop program are available at the AFSPC's website at www.pftac.org.