

## 1. WORLD ECONOMIC DEVELOPMENT

According to recent data from the International Monetary Fund (IMF), the global economic growth for the year 2000 have been further revised by 0.4 percentage points to 3.0 percent, reflecting higher oil prices as well as weaker equity markets. These developments have in most part been driven by the slow economic activity in the industrial countries.

The economic growth of the United States economy for 2000 was forecasted to have recorded a growth of around 5 percent in 2000, with further slowing down to 1.4 percent in the final quarter. This resulted from decline in manufacturing production, falling capacity utilization rates, weak retail sales, and low consumer confidence, linking it with low equity prices and erosion in perceived job security. With the fear surrounding the rapidly weakening US economy, the US Federal Reserve acted swiftly in the opening months of 2001 to cut interest rates by 100 basis points.

In Japan, growth remained flat in the fourth quarter, as against a slight contraction in the previous quarter. Signs of deflationary pressures are re-intensifying in the wake of leveling out of the business confidence, weak retail sales, moderated growth in business investment and industrial production, deteriorating growth in export, and renewed weakness in stock prices reflecting concerns about the financial sector.

In the Euro area, signs of a moderate slowing are emerging despite relatively favorable economic conditions. The rate of private consumer spending has diminished and business confidence, especially in France and Germany, has moderated from relatively high levels in the first half of the year.

The decline in oil prices and the strengthening of the euro dampened inflation toward the end of the year.

The Australian economy moderated in 2000, recording 4.25 percent as against 4.7 percent in 1999, with contraction in housing and softer private consumption leading the moderation. Triggered by the falling interest rates in the United States, the Australian monetary authorities also reacted by lowering the interest rates to 5.75 percent from 6.25 percent in February 2001. However, the main external driving factor is the deteriorating global economic activity as well as a softening labor market, business confidence and domestic demand, and lower than anticipated inflation.

The Australian core CPI at December 2000 recorded 2.25 percent, which is within the Reserve Bank of Australia's (RBA) target range. This rate excludes the 3.7 percent GST-induced increase in September of the year.

The New Zealand economy through its major trading partners was victimized by the weakening US economy in the last part of the year. Towards the end of 2000, business and consumer confidence rebounded dramatically; however, retail sales had been relatively subdued. Despite growing concerns about the global slowdown, exports during December rose by over 28 percent from the corresponding period in 1999.

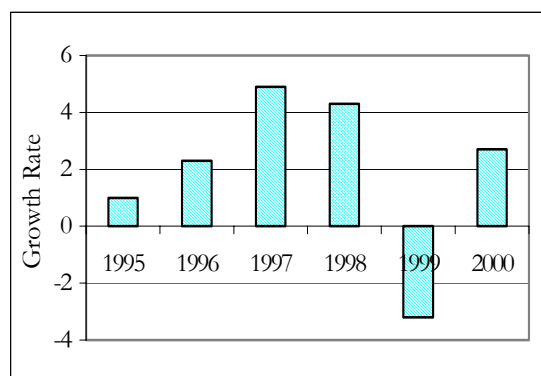
Despite growing concerns about the global slowdown, exports in the latter half of the year increased by over 28 percent from the corresponding period in 1999. However, the annual inflation growth has been on the rise, recording 4.0 percent in 2000. Technically, this rate breaches the RBNZ's 0-3 percent target band. Most of the

increase was due to the weakness in the NZ dollar as well as the high oil prices.

## 2. DOMESTIC ECONOMIC REVIEW

The Vanuatu economy, according to the revised data, recorded a growth of 2.7 percent during 2000. The growth has generally improved from a negative rate of 3.2 percent in 1999. This resulted mostly from the general up-trend in the agricultural commodities, which recorded an overall 7.4 percent increase. Barring a sole decline in forestry and logging products, sectoral growth was mainly contributed by kava, cocoa, copra and other commercial agriculture. However, beef production as well as export, were slightly down. This could in part explain the partial recovery of the Asian economies since the crisis as well as fear for the foot & mouth disease.

**Chart 1. Real GDP**



In reflection of the ethnic and political instability in other regional tourism markets, particularly Fiji, visitor arrivals surged by about 12.0 percent during the year.

The underperformance of the Government fiscal position could be partly harmonized with the compliance problem faced by the Department of Finance. The expenditure side of the fiscal developments showed

overspending by the Government, basically in consequence of fixed capital assets acquisition from the development fund. Evidence of economic weaknesses was also substantiated by decline in local expenditure and employment by the financial institutions.

On the external front, the balance of payments recorded a substantial surplus following the final receipt of the Comprehensive Reform Program (CRP) loan of roughly US\$5 million (VT690 million). The improvement in the external account took the stock level of official foreign exchange to VT5,471.1 million. This level represents about 5.8 months of import cover as against 5.0 months recorded in the previous quarter.

With the increase in the net foreign assets following the CRP money, total money supply rose despite the decline in the overall domestic credit. However, private sector credit continued to increase, although the interest rate spreads remain relatively high by regional standards.

The monetary policy stance remained unchanged, although the economic situation at the close of the year appeared comfortable to the monetary authorities (following the receipt of the CRP loan), which could warrant a policy change. The repos (repurchase agreement) and rediscount rate stood at 7.0 percent by the close of the year

Other interest rates such as the inter-bank and the latest weighted interest rates on the RBV currently stand at 5.5 percent and 2.1 percent, respectively.

### 2.1. REAL SECTOR

Except for the decline of 2.0 percent in forestry and logging products, contributions to growth were mainly from

kava (50.4 percent), cocoa (77.4 percent), copra (6.1 percent) and other commercial agriculture (11.9 percent). Beef and export fell slightly due partly to the foot & mouth disease scare.

Developments in the real sector, particularly, the agricultural sector, generally improved as indicated by the overall 7.4 percent increase in its development in the GDP. Copra, kava and beef productions showed signs of a turn around, except copra. The copra output as well as the commodity value continued the downtrend, which commenced in 1998. While data on kava remains a problem, it is estimated that in 2000 kava production was 10,000 tonnes, of which an estimated three-quarter is consumed domestically and the remaining goes overseas.

The tourism sector experienced an increase of 12.0 percent during 2000, as against 23.0 percent registered in the previous year. Total visitor arrivals by air remained high as expected. The increase has been in part due to a compensating effect from the political unrest in Fiji -- the main competing market for Vanuatu.

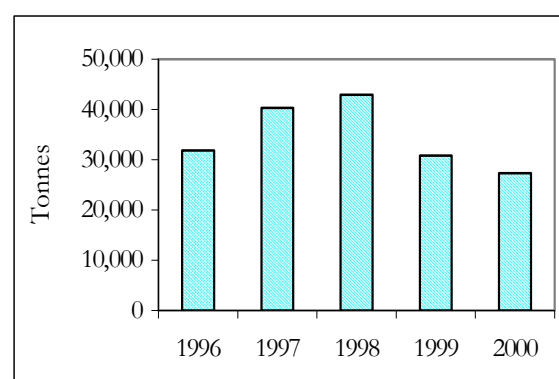
### 2.1a. Coconut Products

Copra production during the year recorded a decline of 11.7 percent from 30,840.7 tonnes in 1999, although at a slightly slower pace than in 1998-99, which fell by 28.2 percent. Total production for the year was 27,239.3 tonnes. The fall could be explained by the continuous fluctuation in world copra price during the last half of the year, which eventually settled at US\$228 in end-December 2000. The drop reflected increases in copra and coconut oil supplies into the world markets as major copra producing countries in Asia had recovered from adverse weather conditions associated with the *El Nino* in 1998 and

1999.

Domestic copra conditions also added a disincentive to the equation with a decline from an average price of VT19,000 per tonne to VT15,000 per tonne in the same year. The drop was consistent with the depressed world copra price. Average world copra price dropped by 13.5 percent from US\$260.0 in the third quarter to US\$225.0 in the last quarter of the year.

**Chart 2. Copra production**



The period also witnessed the first shipments of coconut oil by the Coconut Oil Mill (COPV), mostly exporting to Australia and, to some extent, Fiji. Total coconut oil production for the whole of 2000, valued at MVT2,710, was 1,812.4 metric tonnes. World coconut oil price experienced a drop over the year in line with copra prices, from US\$367.7 per tonne in September quarter to US\$344.0 during the last quarter of 2000.

### 2.1b. Cocoa

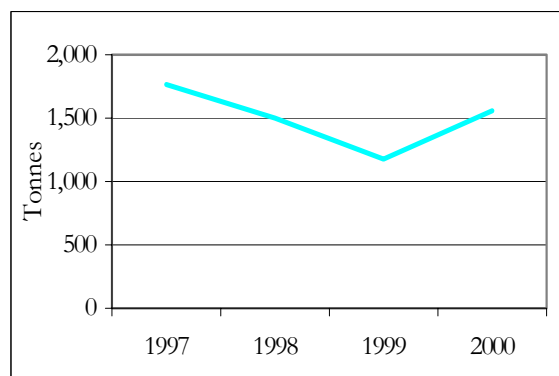
Total cocoa production for 2000 far exceeded the annual production level in 1999 by 32.3 percent, despite a fall by 50.7 percent in the last quarter of the year. Increase in production for the year traded off with the prevailing low copra price as less copra was produced.

Over the last few years, cocoa sector

experienced uncharacteristic variations in production. Much of this was due to the current state of the Metenesel Cocoa Estate, the single largest cocoa plantation in the country. The Estate has been facing financial and management difficulties since the early parts of the 90's, which resulted in the substantial downsizing of its operation.

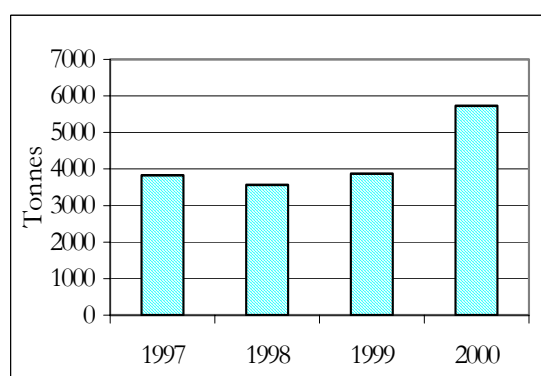
Domestic cocoa prices fetched up to VT112,500 per tonne for the First Grade, whereas Grades 2 and 3 paid VT97,500 and VT70,500 per tonne, respectively. World cocoa prices, however, dropped from US91.2 cents to US88.3 cents in the second half of the year.

**Chart 3. Cocoa production**



### 2.1c. Beef Production and Export

Total beef production in terms of number of heads of cattle slaughtered declined by 2.8 percent from the preceding year figure. However, total carcass weight significantly grew 48.0 percent higher, indicating bigger and heavier cattle slaughtered during the year.



### Chart 4. Beef production

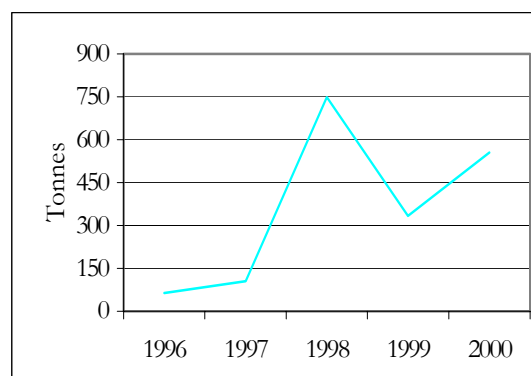
On the other hand, total volume of beef exported in 2000 was 15.0 percent below the 1999 level. The ethnic unrest in the Solomon Islands and political instability in Fiji during the year partly accorded with the low beef exports. Japan continued to dominate the beef export market with 57 percent and 54 percent for 1999 and 2000, respectively.

Small quantities of beef were exported to Fiji, Tahiti, Wallis and Futuna. Fiji began importing beef from Vanuatu in 1999. Tahiti is a new market for Vanuatu beef since 2000.

### 2.1d. Kava

Annual kava production estimate stands at 10,000 tonnes, of which approximately three-quarter is consumed within the domestic market. The difference is exported to overseas markets. The proportion may vary from year to year depending on developments in the two markets.

**Chart 5. Kava Production for Export**



Following the historical record in kava production and export in 1998 and the subsequent slump in 1999, the kava export industry slowly recouped itself in 2000 with a substantial increase of 52.7 percent from the previous level of VT313 million.

Coupled with measures adopted in early 1999 to address the quality control, the pickup could also be explained by improved averaged price levels in overseas markets, triggered by low external stocks.

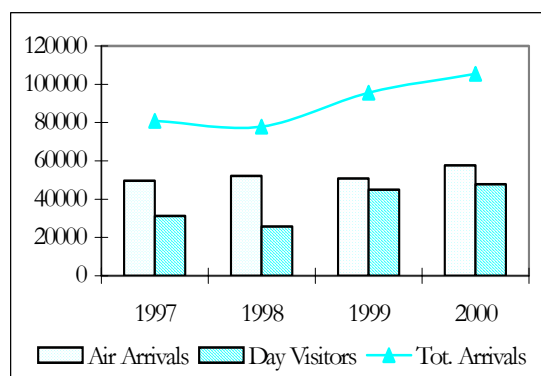
Kava exports in terms of volume also showed an impressive surge, increasing by 66.2 percent from 334 tonnes in 1999.

### 2.1e. Tourism

Total tourist arrivals for the year reached a new peak of 107,174 visitors, compared to the previous years. The growth represented an increase by 12.0 percent from 95,678, whereas in 1999, a rise of 23.0 percent was recorded.

The overall increase in visitors reflected surges in both visitors and day visitors. Visitor arrivals recorded an increase by 13.0 percent, while the day visitors registered a rise of 10.9 percent. This up-trend restored the growth trend in 1998 with the majority of contribution from Australia and New Zealand visitors, which together grew by 25.0 percent. The two countries made up 78.0 percent of the visitor arrivals during 2000, compared to 70.5 percent in 1999.

**Chart 6. Visitor Arrivals**



Partly in line with higher visitor arrivals, the room occupancy rate during the year

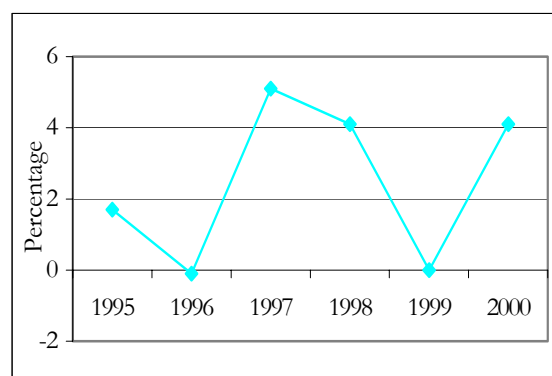
recorded an increase to 53.2 percent from 51.7 percent in 1999.

### 2.1f. Inflation

Reversing the favourable development in 1999 in which zero growth was recorded, price movements, measured as changes in the consumer price index over the year, recorded a disturbing 4.1 percent increase. The impacting changes over the year were attributed to increases in transport & communication (6.8 percent), housing & utilities (7.2 percent) and drinks & tobacco (8.7 percent).

Relative increases in the overall CPI<sup>1</sup> in Housing & Utilities were attributed to increases in electricity (5.7 percent) and housing rents (0.7 percent). The rise registered in transport & communication was due mainly to an abrupt increase in domestic airfares by 14.9. Food, which boasts the highest composition in the CPI weight of 35.5 percent, recorded an increase of 1.9 percent, despite quarterly declines of 1.4 percent in seasonal food items such as fruits and vegetables.

**Chart 7. Inflation**



Price developments in Vanuatu have in most instances been shaped by changes in

1. Expenditure weights used to derive the consumer price index of the country is based on the 1998 Household Income and Expenditure Survey and import data [Vide Annual CPI Report].

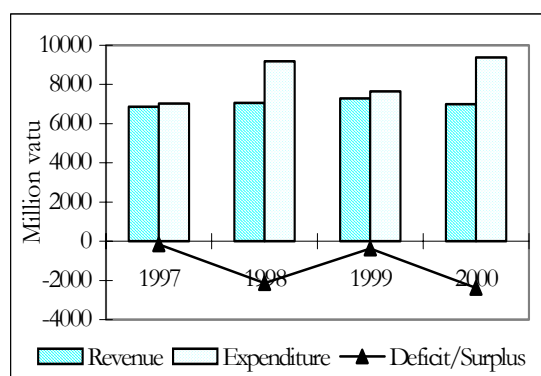
government policies, particularly fiscal policies, as well as imported inflation by way of oil price increases and other exogenous factors. Thus, a core measure of the indicator would have given a more meaningful picture.

## 2.2. FISCAL OPERATION

During the year, the Central Government fiscal operations recorded a huge deficit of VT2,375.6 million, as compared to a lower VT371.0 million attained in 1999. Accounting for about 7.1 percent relative to the latest published GDP, the deteriorated fiscal condition in 2000 was brought about by high development expenses by way of the implementation of major infrastructural projects. The similar relationship in 1999 was 1.1 percent. Total expenditures were VT9,372.2 million, which exceeded the budgeted figure by 9.0 percentage points.

Overall domestic revenue and grant aid registered VT6,996.6 million. This level fell short of the previous year of VT7,281.7 million, which represents about 90.7 percent of the 2000 budget. The decline resulted mainly from decreases recorded in taxes on use of goods and services, especially Value-Added Tax (VAT), and in tax on international trade, particularly import duties, which dropped by 4.1 percent and 4.9 percent, respectively.

**Chart 8. Govt. Expenditures and Revenue**



The prudent financial control by the Department of Finance by way of warrant releases and the withholding of financial visa was not effective in keeping government expenditures low for the year.

Total Government securities held by both the banking and non-banking sectors decreased by VT25 million to VT2,431.2 million at close of December 2000. Of the total amount of bonds outstanding, the banking sector, including the Reserve Bank of Vanuatu, accounted for the majority 79.5 percent, whilst public corporations and individuals held the remaining 20.5 percent. Vanuatu's external debt outstanding at the end of the year was estimated at VT9,482.3 million. Of the nominal GDP, overall debt proportioned about 28.2 percent. Consequent on the maturity profile and nature of the instruments, the level of domestic debt could vary widely. Bonds, bills and overdrafts (by way of direct borrowing from the Reserve Bank) are the most common funding facilities utilized by the Vanuatu Government. The external debt, on the other hand, is influenced by the redemption and exchange rate movements.

## 2.3. MONETARY DEVELOPMENT

Mirroring increase in total net foreign assets (NFA), money supply mounted by 5.5 percent to record VT33,734.9 million at the close of the year, despite the decline recorded in domestic credit after experiencing a downtrend in the previous year.

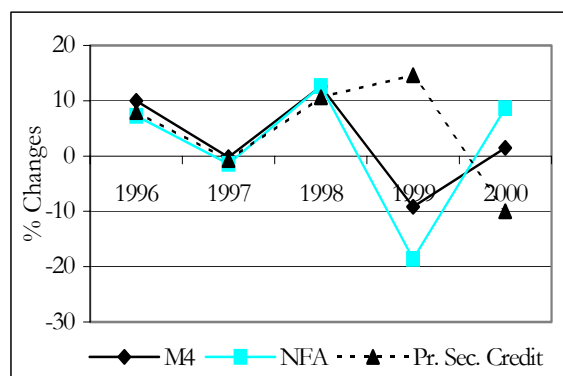
### 2.3a. Foreign Assets

The net foreign assets rose by 11.1 percent over the previous year. Exceedingly surpassed developments in the preceding period, which recorded a fall of 18.6 percent, this positive development was

brought about by increases in the NFA holdings of both the monetary authorities as well as those of the commercial banks. The growth rate registered for the commercial banks was 14.3 percent. Following a decline of 7.7 percent during the previous year, the monetary authorities' NFA position registered a slight increase of 1.2 percent in 2000. Variations in growth rates were due to the disbursements of the Comprehensive Reform Program (CRP) loan from the Asian Development Bank drawn-down in 1998 and mid-December of the year under review.

Due to the majority holdings of residents' foreign currency deposits held by banks, the movements in the overall NFA position closely trended along commercial banks' NFA position.

**Chart 9. Monetary Aggregates**



### 2.3b. Credit

Total domestic credit during the year recorded a marginal increase of 0.8 percent as compared to a growth of 11.1 percent registered in the preceding year. Aided, however, in part by the receipts of the CRP funds, this development resulted principally from monetization of the government deficit operations.

However, despite the increase in the government's position in December 2000, year-on-year comparison indicated a

considerable deterioration in the fiscal position. This continued to reflect the transfer of non-performing loans, which took place in March 2000, from one of the commercial banks to the Asset Management Unit (AMU)<sup>2</sup>.

The insignificant growth in domestic credit was largely impacted by fall in one of its major components (private sector credit) by 4.9 percent. Of the private credit outstanding which leveled at VT11,637 million in December 2000, about 81.2 percent was denominated in the local currency. The remaining 18.8 percent was in the form of foreign currencies.

The breakdown in credit extension to various sectors of the economy during the year indicated growths in entertainment (1.5%), professional & other services (142.0%), transport (37.1%), housing & land purchases (13.7%), and distribution (27.0%). However, credit extended to agriculture & fisheries, mining & manufacturing, public utilities, housing & land purchases, other personal and miscellaneous sectors recorded falls. In terms of sectoral breakdown, credit outstanding to construction composed 21.6 percent, followed by housing & land purchases (20.0 percent), personal (16.7 percent), distribution (14.9 percent), and transport (9.1 percent). The other 17.7 percent is shared, among others, by agriculture, tourism, and entertainment.

### 2.3c. Money Supply

The overall money supply (M4) at the close of 2000 rose by 5.5 percent compared to a decline of 9.2 percent recorded in 1999. The annual growth was associated with increases in narrow money (6.1%) and quasi money (5.4%).

<sup>2</sup> AMU being a public sector entity, the transfer of the assets (loans) is classified as a form of credit to the Government by the banking system.

Among the components of narrow money, currency outside banks contracted by 5.2 percent. Probably due to Y2K and millennium celebrations, the public held more currency in 1999 than in 2000. However, demand deposits registered a huge growth of 15.9 percent over the previous year. Both components of demand deposits increased during the reviewed quarter, with foreign currency registering 4.5 percent and vatu component, 4.2 percent.

The increase in quasi-money during the year attained VT25,686.3 million. Although both components of quasi-money registered increases, the bulk of the increase came from the foreign currency component, which increased by 10.1 percent. Over the last twelve months, quasi-money grew by 5.4 percent.

### **2.3d. Interest Rate**

Weighted average savings rates at the close of 2000 recorded an increase to 3.4 percent from 3.0 in 1999. Likewise, the upper range for above 6 months category fell by 0.50 percent to 6.00 percent.

On the other hand, weighted average lending rate edged up by 1.17 percentage points to 13.47 percent. For commercial loans, the upper range dropped by 0.25 basis points to 18.00 percent. Likewise, the lower range for commercial loans fell by 0.25 basis points to 11.75 percent. Thus, the spread during the year was 10.07 compared to 9.30 in 1999.

Commercial banks' inter-bank lending rate remained at 5.5 percent during the year. The Reserve Bank's rediscount and repurchase agreement (REPO) rates remained at 7.00 percent.

### **2.3e. Reserve Money**

Reserve money expanded by 6.6 percent to record VT4,381.5 million in December 2000. The increase mainly reflected the growth in excess reserves. The massive increase in excess reserves could be explained by the maturing RBV Notes. However, the other two components of reserve money, namely currency outside banks and commercial bank cash, recorded falls.

### **2.3f. RBV Notes**

Total amount of RBV Notes outstanding at the end of the year stood at VT100 million, down from VT250 million in the third quarter. During the month of October, VT100 million of the 28-days Notes matured and were rolled over for the same period. In November 2000, another VT100 million in RBV Notes matured. However, due to the growing liquidity of banks, RBV issued a total of VT200 million worth of RBV Notes, increasing the outstanding Bank Notes to VT350 million at the end of November. The RBV refrained from issuing new Notes in December 2000, while the Government Treasury Bills (VT250 million) that matured during the month were rolled over the.

### **2.3g. Monetary Policy Stance**

During the December period, there was no particular adjustment in the monetary policy stance. The 7.0 percent fixed for the repos and the rediscount rates remained unchanged.

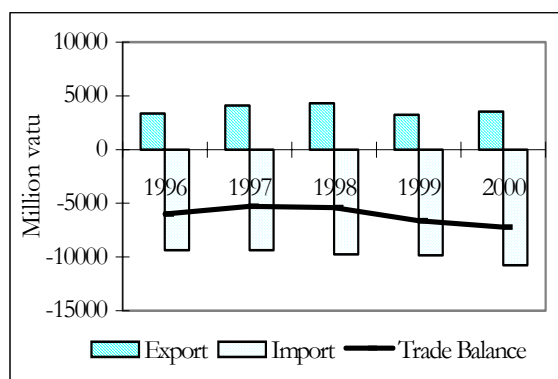
## **2.4. BALANCE OF PAYMENTS**

The external sector fared to some extent during the year to record a surplus of VT73 million as against a deficit of VT245 million in the previous year. The improvement partly mirrored the last tranche of the CRP loan of US\$5 million as



well as the substantial improvement in the current account balance.

**Chart 10. Merchandise Trade**



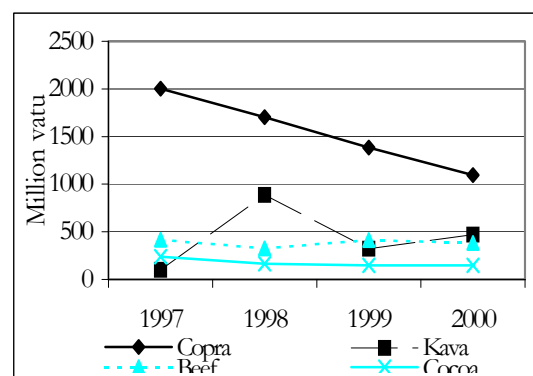
As depicted in Chart 10, the negative balance of trade position continued the up trend since 1997. Despite an increase of 9.7 percent in exports, the deterioration was connected with increased expenses on import by 7.7 percent.

#### 2.4a. Exports

For a small economy heavily dependent on agricultural commodities for its exports, fluctuations in world market price could have devastating impacts on its economic conditions. The continuous decline in the world price of copra, which eventually transmitted to the domestic stage, was part of the reason for the fall in copra exports by 20.8 percent during the year reviewed. Comprising the majority of the country's exports, copra made up 35.2 percent of the domestic exports (excluding re-exports) during the year, but recorded 43.6 percent and 49.3 percent in 1998 and 1999, respectively. The irregular shipping schedule to Europe also remained a hampering factor for copra exports. As the traditional market for Vanuatu's copra exports, merchandise trade flow to Europe in 2000 comprised 18.9 percent, down from 43.9 percent in 1999. The breakthrough into the Japanese market by

Vanuatu Commodities Marketing Board (VCMB) is yet to prove its stability as a replacement for the other major copra markets.

**Chart 11. Major Domestic Exports**



The period also portrayed a silver lining in kava exports with an increase of 45.2 percent, partly reversing the historical record made in 1998. The underlying factor is the subsided stock level, which in turn triggered both the price and volume to edge upward. Timber exports, in consequence of considerable price improvement recorded an increase by 31.5 percent to VT413 million, despite fall in quantity.

On the other hand, beef exports failed short of its performance for the previous with a fall by 7.0 percent. The decline principally resulted from fall in volume despite increase in price as indicated by the unit price. As previously discussed, regional tensions in Solomon Islands and Fiji were partly responsible for this fall.

#### 2.4b. Imports

Featuring consistently unchanged proportion of exports to imports which averaged 33.0 percent in 1999 and 2000, Vanuatu remains a highly import dependent country. Factors such as the general high cost structure of the economy, which also include capital and utility costs,

large import reliant service sector (encompassing tourism and wholesale), and unfavourable terms of trade developments are, *inter alia*, some of the common bottlenecks to trade balance improvement.

Imports, adjusted for cost, insurance and freight, continued the uptrend to VT10,615 million, representing 7.7 percent. The two main items that attributed to the increase were mineral fuel and basic manufactures, which recorded substantial increases of 101.6 percent and 7.9 percent, respectively. The risks underlying oil price movements can also pose significant woes to economic progress.

#### 2.4c. Services

Aided by high tourism arrivals in 2000, the services account recorded a substantial recovery, surpassing the 1998 level of VT7,626 million, from which the previous year number fell by 15.2 percent. Inward travel (credit), which is the estimated statistical measure of tourist spending, recorded a rise of 23.3 percent as compared to a fall of 16.4 percent attained over 1999. The peak visitor arrival was a marked reflection of the political uncertainty in Fiji during the year.

The overall payment side of the account, albeit slight, impacted on the recovery, recording a fall.

#### 2.4d. Income

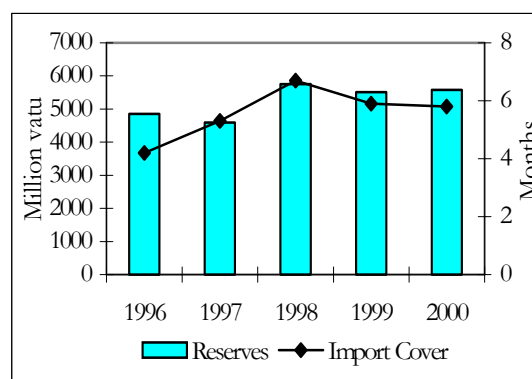
Reflecting a net outflow of funds, the deficit in the income account worsened by 11.4 percent during the year. Increase in reinvested earnings of foreign investors during the quarter was a major contributing factor to the deficit of the income account. The investment income of the commercial banks, monetary authorities and other sectors acted to some extent as

compensatory factors in the receipt side of the account.

Net current transfers registered a substantial increase of VT706 million to VT861 million in the year. This could be explained by a drop in net private transfers despite increase in net official transfers.

#### 2.4e. Financial Account

Chart 12. Net Reserves and Import Cover



The financial account recorded another net inflow of VT2,313 million in 2000, yet lower than the preceding period level by 56.9 percent. Increase in holdings of commercial banks' foreign assets abroad could explain this. Foreign direct investment also contributed by an increase of VT200 million in 1999 to VT2,795 million during the year.

The net official reserves as at December 2000 edged up to VT5,020 million in reflection of the draw-down of the last tranche of the CRP loan. This level of foreign reserves is sufficient to cover around 5.8 months of import against 4.8 months coverage in 1999.

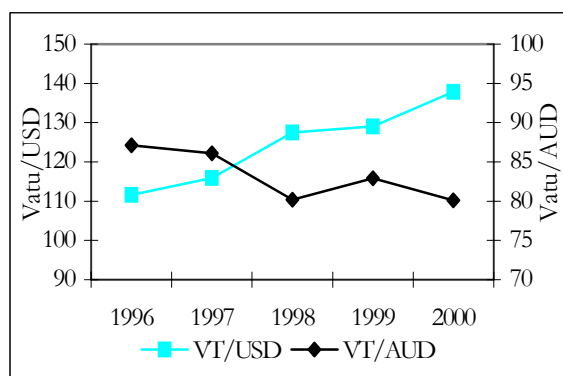
#### 2.4f. Exchange Rate Developments

Developments in the exchange rate over the year witnessed vatu depreciating against the US dollar (10.8 percent), Pound

sterling (2.6 percent) and Euro (1.8 percent).

However, over the period vatu reached a low of 144.79 versus the green back and 80.80 against the Aussie dollar.

**Chart 13. Exchange rate movement**



The currencies against which vatu gained ground, were the Australian dollar (4.1 percent) and the Japanese Yen (0.9 percent).

Annual comparisons depict a substantial depreciation of 11.5 percent against the US dollar, but an appreciation against the Australian dollar, New Zealand dollar and Euro by 4.3 percent, 4.1 percent and 2.4 percent, respectively.

### 3. OPERATIONS

#### 3.1. BANKING

##### 3.1a. Currency Operations

Currency in circulation, which recorded growth in 1998 and 1999 of 0.4 percent and 16.2 percent, respectively, declined by 6.0 percent to VT2,110.2 million at end-2000. While expectations of higher growth to be realized during the year in line with the Y2K precautionary cash reserves,

growth was negative. In preparation for the Y2K changeover the Bank stocked up old 1999 notes in case of a general rundown on banks in connection with the Millennium bug. The total cancelled notes, which were destroyed in the subsequent year valued slightly over VT1 billion.

The vatu banknotes are issued in denominations of VT100, VT200, VT500, VT1,000 and VT5,000. Since 1999, the VT100 bill has been out of print to be replaced by the VT100 coin. The circulation value at end-December 2000 was VT2,073.6 million. The largest quantity of bills in circulation continues to be VT1,000 at 50.5 percent, followed by VT5,000 and VT500 at 40.2 percent and 5.7 percent, respectively. The VT200 note represented 2.2 percent of the value of the notes outstanding at the close of December 2000, while the remaining 1.4 percent was allotted to the VT100 bill.

The overall value of coins in circulation was VT366.6 million, composing denominations of VT1, VT2, VT5, VT10, VT20, VT50 and VT100. As percentage of the total value, the VT100 piece is mostly widely circulated at 51.6 percent, followed by the VT20 (14.9 percent), VT10 (10.2 percent), VT50 (8.0 percent), VT5 (4.0 percent) and VT2 (1.9 percent); the VT1 piece is the least to circulate.

The Reserve Bank of Vanuatu always makes sure that the supply of notes and coins is sufficient to meet the demand, as the sole issuer of the currency. This also implies that the Bank is involved in all matters pertaining to currency in circulation, which includes currency design, the registration of all notes and coins in and out of the Banks and the examination and sorting of notes for reissue or destruction.

During 2000, a total of 2,693,118 notes passed through the Reserve Bank for examination, of which 13.9 percent were rejected while the remaining 86.1 percent was reissued. Compared with 1999, the number of notes examined in 2000 recorded a considerable decline of 13.6 percent.

### 3.1a. Counter Operations

The Reserve Bank continues to provide banking facilities to its customers, namely, the commercial banks, Government and the Vanuatu Commodities Marketing Board (VCMB), a statutory body. All these institutions are maintaining deposit accounts with the Reserve Bank of Vanuatu, from which they settled their inter-bank obligations.

**Table 1. Counter Transactions (MVT)**

	Withdrawals	Deposits	Totals
1997	5149	5096	10245
1998	5120	4974	10094
1999	4145	4136	8281
2000	3983	4125	8108

Source: Reserve Bank of Vanuatu

In 2000, there has been a considerable decline in counter operations. Both withdrawals and deposits have declined by 3.9 percent and 0.3 percent, respectively. As a result, the combined operations declined by 2.1 percent in 2000.

### 3.1b. External Reserves Management

Gross official reserves of the Reserve Bank of Vanuatu have slightly edged up during the year by VT74.3 million or 1.3 percent, compared to decline of 4.3 registered in 1999. The decline was partly a result of outflows through the balance of payments. At the close of 2000, the gross official

reserve of the Bank was equivalent to 5.8 months of import, as against 5.9 months in of 1999.

In relation to shares of foreign reserves held by the Reserve Bank of Vanuatu as at December 2000, excluding the IMF Tranche Position and the SDR Holdings, the United States dollar holdings have succeeded the position previously held by the AUD in 1999 to account for 35.6 percent. Following this were the Australian dollar (31.9%), French franc (11.9%), the Pound Sterling (9.5%), and the ECU (8.5%). The remaining 2.6 percent was shared by the New Zealand dollar, Deutsche Mark, Japanese Yen and the Canadian dollar. The income received on the investments was VT259.8 million, down by 5.7 percent from the previous year, but higher than 1997 and 1998 levels.

On balance, the Reserve Bank netted a profit of VT109.7 million during the year, a decline by 11.4 percent from the amounts recorded in 1999. The decline was similar in relative terms with that of the previous year.

**Table 2. Foreign Reserves of RBV (MVT)**

	1998	1999	2000
IMF Position	421.6	585.4	448.0
SDR	89.3	141.7	115.4
Other Hldgs.	5244.6	4781.9	4975.9
TOTAL	5755.5	5509.0	5583.3

Source: Reserve Bank of Vanuatu

### 3.1c. Relation with Banks

Section 33 (1) of the Reserve Bank of Vanuatu Act stipulates that the banks to maintain "Statutory Reserve Deposits" against their vatu deposit liabilities. The reserve ratio has been fixed since 1988 at 10 percent. The averaging methodology used implies that banks might not comply each day with the requirement.

In March 1998 to April 1999, the ratio was temporarily replaced by a system of Prescribed Reserve Assets (PRA) in a bid to bail out the Vanuatu National Provident Fund from a financial debacle. As banker to the other banking system, commercial banks hold balances at the Reserve Bank to facilitate the clearance of bank cheques, which are managed by the Reserve Bank.

The Bank targets mainly the commercial banks liquidity for the sterilization of excess liquidity in the system through the RBV Notes. This process takes place through a tender process and banks bid for the notes.

The number of effects of cheques processed increased by 7.5 percent, despite the fall in value by 4.7 percent to VT32,622 million (See Table 3). Beginning 2000, the Reserve Bank began to use the Society Worldwide Interbank Financial Telecommunication (SWIFT) network to transmit messages relative to both domestic and international businesses.

**Table 3. Operation of Clearing House**

Year	No. of Effect	Value (MVT)
1997	360,365	31,031
1998	352,683	32,030
1999	370,352	34,224
2000	398,286	32,622

Source: Reserve Bank of Vanuatu

Domestic commercial banks are eligible for credit facilities from the Reserve Bank, either by way of the discount window or the repurchase agreement (repos). This new window replaced the Minimum Lending Rate, which existed up to 1998, prior to the monetary policy reforms.

### **3.1d. Commemorative Coins**

In early 2000 the Reserve Bank issued a commemorative coin to mark the

beginning of the new millennium. The coin, which is in proof condition, was designed by MDM Deutsche Munze and was struck at the Valcambi Mint in Germany. Like in previous years, the MDM Deutsche Munze continues to be the main distributing agent. The reed-edged coin has a fineness of 999.9/1.000 silver, a size in diameter of 13.92 cm and weighs 1/25 oz. Encapsulated in a plastic container the coin has a legal tender value of VT50 and is subject to a minting limit of 25,000. On the reverse the coin depicts a nautilus shell (as a golden cameo), while displayed on its obverse is Vanuatu's Coat of Arms. The coin forms part of the Masterpiece Millennium Collection, in which 12 countries also participated.

The total royalties received by the Bank for the sale of these coins fell in 2000 to VT0.8 million, compared to VT2.8 million recorded in 1999.

### **3.2. RESEARCH DEPARTMENT**

In 2000, the Reserve Bank continued to utilize its various monthly, quarterly and annual reports to disseminate information on economic and financial matters to the public.

Comprising of the external division, monetary, real sector and fiscal, the Research Department is commissioned to improve the quality of statistics. The Bank is the compiling agency for balance of payments and monetary statistics and as such the Department continues to take charge of the statistical roles. The Bank relies mostly on data from outside sources, including Finance and Statistics, to complete compile other body of statistics. Undertaking one of its main tasks, the Department continued to formulate the country's monetary policy, participate on behalf of the Bank on the Macroeconomic Committee and Cash Flow Committee, in

which the Department of Finance also involved.

With the assistance of the International Monetary Fund, the Department continues to put effort into standardizing work relating to balance of payments. The effort has paid off with the Bank departing from the old Balance of payments Manual to the new one, the BPM5 edition.

### **3.3. BANKING SUPERVISION**

The Bank Supervision was established in 1996. In February of 2000, the Banking Supervision Unit was renamed the Bank Supervision Department and consequently its Head was renamed Director as it has increased in staffing and hitherto embarked on wider responsibilities. While the responsibilities to supervise offshore banks rest with the Vanuatu Financial Services Commission (VFSC), there has been greater information sharing and coordination between the VFSC and the Reserve Bank.

On July 7, 2000, the Reserve Bank issued a notice to all commercial banks on money laundering, as the issue in Vanuatu received considerable attention from international authorities. The Financial Transaction Reporting Bill was also passed by the Parliament following an APG Mutual Evaluation Report on Vanuatu.

In order to establish links with other regulatory authorities and promote cross-border cooperation in banking supervision, the Bank Supervision Department participated in various forums and activities staged by the Basle Committee of Supervision, the Offshore Group of Banking Supervisors, regional Action Task Force, and the Asia-Pacific Group.

Seeking to strengthen the overall stability and soundness of the banking system, the Government, in September 2000, gazetted for commencement the newly approved

Financial Transactions Reporting Act. The passing of the Act also paved way for the establishment of a Financial Intelligence Unit within the State Law Office.

Due to the allegations of money laundering levied against some offshore institutions, a mission from the Asia-Pacific Group (APG) of the Financial Action Task Force on Money Laundering (FATF) visited the country in early in 2000 to assess the country's efforts to combat money laundering.

### **3.4. RELATIONS WITH INTERNATIONAL ORGANISATIONS**

Since Vanuatu joined the IMF in September 1980, the relationship with the Fund has been beneficial. In March, the Bank was visited by Mr. Roger Purdue a Multi-Sectoral Statistician from the Pacific Financial Technical Assistance Centre (PFTAC), based in Suva, Fiji. The IMF Article IV consultation also visited Vanuatu in their 24-month cycle surveillance study in May 2000 followed by a Staff Report.

The General Advisor, Mr. Ferdie Van de Walle, who was on an IMF secondment with the Reserve Bank, continued his services with the Bank on a local contract for a tenure of 3 months after completing 2 years under the IMF secondment. Mr. Andrew Milford of the Australian Prudential and Regulatory Authority (APRA) visited the Banking Supervision Department of the Bank during the year. His visits were also sponsored by the IMF.

### **3.5. INFORMATIONAL SERVICES**

#### **3.5a. Awareness Notices**

During the year, the Bank brought to the attention of the public a number of issues. These included warnings on the circulation

of counterfeit banknotes. This formed a series of such notices issued for awareness purposes.

In February 2000, notice was issued to the commercial banks on the reintroduction of the Foreign Exchange Guidelines. The guideline basically restricts selling of foreign exchange pertaining to capital transactions to the banks. However, it does not preclude adherence to capital-related requests by the banks from their own sources.

The Bank also issued in June advisory notices to commercial banks to take extra care in accepting foreign currency notes, particularly the USD bill. This arose from a 1 million US Dollar Bill, which clearly did not come from the proper US authorities as it lacks all security features and an unusual high denomination. During the same month, a counterfeit five-thousand-vatu note was discovered and police and media were immediately alerted.

The Bank issued notices relating to efforts to combat money laundering and suspicious transactions with effect of July 7, 2000, following an APG Mutual Evaluation draft report. Related to this, a new Financial Transaction Reporting Bill was passed ensuing the Evaluation Report on Vanuatu. The report merely provides measures to address money-laundering issues in the country.

Dr. T.K. Jayaraman, a Senior Lecturer of the University of the South Pacific, made a presentation to the Bank staff concerning the Asian Crisis on January 6 2000. The session was mostly attended by the Bank senior staff.

### **3.5b. Library**

The Library of the Reserve Bank serves as the main source of information on banking, finance and economic matters in Vanuatu and the rest of the world. Although the library is intended primarily for use by the Bank staff, it has also been made use of by Government departments, University and College students, and offices of international institutions domiciled in the country. Visits have been organized for various groups during the year, including the Library Association of Vanuatu and librarians of other institutions. The recording of library material was virtually card-based system.

As the official depository for the International Monetary Fund and the World Bank publications, the Reserve Bank continues to receive free publications from these international institutions. The Bank subscribes in journals and magazines as well as purchases books from other sources. The Bank donates magazines to schools every year.

### **3.5c. Publications**

In 2000, the Bank continued to utilize its *Monthly News Summary* and *Quarterly Economic Review* to disseminate information on economic and financial matters to the public. The monthly publication covers monthly developments in the monetary and financial sector. It also carries summary of local and international news relating to the field of finance and economics. The data published in the monthly report conforms to the concepts, definitions and classifications recommended by the International Monetary Fund. The Bank also undertook an exercise to cause a facelift to its quarterly publication.

From time to time, the Bank puts out policy statements on monetary and

exchange rate issues, although the release is still not a regular activity.

In commemorating the Bank's 20 years of operation, the Bank staff, with the assistance of an IMF Technical Assistant, Ferdie van de Walle, released a book, titled '*20 Years of Central Banking in Vanuatu*'. The book covers a wide range of issues, beginning with the old monetary barter system and culminating in the modern monetary management of price stability. The book has been widely circulated, but could also be obtained from the Bank at a price.

Also in line with the anniversary, the Bank published two booklets, namely, '*The Reserve Bank of Vanuatu Art Collection*' and '*MANI BLONG YUMI: Money in Vanuatu Society*'. The latter booklet intended to collaborate with an Exhibition bearing the title of the booklet, which was sponsored together with the Cultural Center, without which the event could not have attained such success.

## **4. INTERNAL MANAGEMENT**

### **4.1. ADMINISTRATION**

#### **4.1a. The Board of Directors**

The Board of Directors is the supreme body in the Reserve Bank of Vanuatu. Apart from the Chairman of the Board who is also the Governor of the Reserve Bank of Vanuatu, the Board has three other members who are appointed by the Honorable Minister of Finance. The names of the Board members and their terms in office are presented at the front of this report.

However, for the whole 2000, there were only 3 Board Members as delay crept in the appointment of Ms. J. Rovo's replacement who left during the year.

At the end of 2000, the Board of Directors of the Reserve Bank of Vanuatu was composed of Mr. A Kausiama, as Chairman of the Board who is also the Governor of the Reserve Bank of Vanuatu; the Board has three other members who are appointed by the Honorable Minister of Finance.

#### **4.1b. Management**

The Management Committee is vested with the mandate for all decisions related to the Bank's internal management and administration. The Committee is comprised of the Governor (as Chairman), Deputy Governor, and three Directors of the Bank.

### **4.2. OFFICIAL REPRESENTATION OVERSEAS**

In May, Governor Andrew Kausiama attended the Official Ceremony of the Bicentennial of the Banque de France. His other representation of the Bank overseas included his attendance at the Central Bank Governors' Symposium hosted by the Bank of England and the Annual Meeting of the Bank for International Settlements (BIS) in Basle, Switzerland. Together with the Minister of Finance, Governor Kausiama attended in September the Commonwealth Finance Minister's Meeting in Malta, followed by the World Bank/IMF Meeting in the Czech Republic. In December, Governor traveled to Australia for the Regional Central Bank Governors' Meeting.

In May, the Bank Supervision Department Director, Peter Tari, represented the Bank as part of the Vanuatu delegation to attend the Annual Conference of the Asia-Pacific Group on Money Laundering in Sydney. Mr. Tari traveled in September to the BIS in Basle for the International Conference



of Banking Supervisors as well as attended the Forum Regional Security Committee Meeting. The Bank Supervision Director also attended meetings at the Reserve Banks of Australia and New Zealand in September.

The Director of Operations, Mrs. Heva Alilee, also joined Governor to attend the Annual Meeting of the BIS in Switzerland as well as benefited from attachments with the Reserve Bank of Fiji (RBF). In December, Mrs. H. Alilee traveled to Singapore to attend a workshop on Foreign Exchange Operations held at the Singapore Training Institute (STI).

In August, Acting Research Director, Simeon Athy, attended a 'Technical Meeting on Economic Statistics in the Pacific' in the Headquarters of the South Pacific Commission in Noumea, New Caledonia.

Mr. Clifford Garae, Director of Administration, was on an attachment with the RBF in March for three weeks. In October, Mr. Garae represented the Bank to attend a workshop on "Banking and Finance in Small States: Issues and Policies Training Programme" in Malta.

Non-management staff members were also granted opportunities to represent the Bank at meetings, workshops, and seminars overseas. These included a workshop on "Bank Lending for Developing Economies" organized by Crown Agents in the UK; a SPREP Workshop on IN-MAGIC Library Software Module in Samoa; a workshop titled "CCB 5<sup>th</sup> Fraud Prevention Workshop" in UK; a seminar jointly organized by World Bank/Federal Reserve System for Senior Bank Supervisors; a 'Central Banks' seminar arranged by SSB Citi Asset management (SSB CITI) in Singapore.

### **4.3. TRAINING AND DEVELOPMENT: Seminars, Courses and Meetings**

Training and development continues to be a priority for the Reserve Bank; thus, the staff were granted training opportunities both locally and abroad. Local participation involved programs offered by the University of the South Pacific Centre in Port Vila in the field of monetary economics and computing. In July, the Bank Librarian attended a seminar on records management and good record keeping practices in the Government Agencies called the "Record and Archives Management Seminar". Attention was granted to the acquisition of basic as well as advanced computer skills by the IT staff.

Overseas training programs in which there were Bank participation, included invitations from the Singapore Training Institute; the Federal Reserve Board System; and the IMF Institute. Most of the courses attended were more technical-related in the field of economic management, statistics and bank supervision. In addition, Mr. Ferdie Van de Walle, General Advisor, visited RBF in April to study their monetary policy formulation, domestic market operations, and foreign exchange market, exchange rate policy and reserve management. Two officers also participated in the Pacific Island Nations Central Banking Course held in Samoa in October.

The opening of the Singapore Training Institute (STI) has been proven to be useful for the Bank since its inception in year 2000 with most of the overseas course offerings coming from the STI.

On academic and professional achievements, Mr. Michael Busai, Senior Research Officer, has successfully gained an MBA Program at the University of the

South Pacific. Another in-service award was granted to Ms. Tavoia, the Bank Legal Officer, who also completed a bachelor's degree in law at the same institution.

Among in-house training programmes during the year was a one-day seminar on the Bank's Monetary Operations for the Bank's senior staff presented by the Research Staff, a 1-month attachment of a Research Officer with the Bank Supervision Department, and a presentation by an official from the Salomon Smith Barney to the Bank management.

#### **4.4. STAFF COMPLIMENT**

At the end of 2000, the total number of staff of the Reserve Bank of Vanuatu reached 50, of whom 49 were ni-Vanuatu and 1 expatriate who served as an Advisor to the Bank. There was another expatriate staff under the IMF TA program that visited the Supervision Department of the Bank during the same period, but on a shorter term. There was one recruitment made during the year and one resignation.

#### **4.5. OTHER ACTIVITIES**

As in previous years, the Bank also offered temporary employment to students from USP and High Schools around the city. The program is intended to provide working experience for the students well as to aid them choose a career path. During the two-weeks holidays of September 2000, the Bank was part of a Career Development Programme of Onesua Presbyterian College by providing internship attachment for two of its students.

#### **4.5a. 20<sup>th</sup> Anniversary Celebrations**

The Reserve Bank celebrated its 20<sup>th</sup> Anniversary in November with a number of commemorative events, commencing with a speech from Governor Kausiama marking the opening of an exhibition from 28 July through 29 September. Titled 'MANI BLONG YUMI: *Money in Vanuatu Society*', the exhibition was organized in conjunction with the National Museum showcasing all forms of money, ranging from the old barter items to modern forms of currency as well as the Bank's history in the past twenty years. Throughout the 2 months, there were displays of photos depicting the monetary reform when the distribution of vatu replaced the old New Hebrides franc. Displays of photos from the official opening of the Bank's new building in 1989 were also exhibited. Thanks to De La Rue Currency who assisted in supplying some of the materials displayed in the exhibition.

On 17<sup>th</sup> November, His Excellency, President John Bennett Bani, launched the book "20 Years of Central Banking in Vanuatu".

#### **4.6. ACKNOWLEDGEMENT**

The Board and the Governor of the Reserve Bank of Vanuatu wishes to express their appreciation for the continuous dedication of staff during the year. This appreciation is also extended to the International Monetary Fund (IMF) for the staff provided to the Bank under its technical assistant (TA) program.