

RESERVE BANK OF VANUATU



A MACROECONOMIC PROSPECT INTO
VANUATU DOMESTIC ECONOMIC DEVELOPMENT
AND OUTLOOK ON SECTOR PERFORMANCE

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The Reserve Bank of Vanuatu



Vanuatu Macroeconomic Developments and Prospects

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Contributions in this booklet is composed of reports collected from onsite visits and interviews compiled by staff of the Research and Statistics Department

Disclaimer: The views presented are of the authors and do not necessarily reflect the entire view of the Reserve Bank of Vanuatu

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I. INTRODUCTION

The Reserve Bank of Vanuatu through the Research and Statistics Department undertakes an annual Business Sentiment Survey and Visitation to business houses each year to collect sentiments on major economic market conditions for the current year and projected year period. The October Survey and Visitation covers prospects and economic outlook the first last 9 months of 2018 and outlook for 2019.

The main objectives of this surveillance work are:

- To gain insights to current domestic economic activities which will supplement projections of GDP growth forecasts in the medium term;
- To obtain information on market conditions which will supplement the quarterly statistical indicators of the economy released from the Vanuatu National Statistics Office;
- To identify some major issues and constraints to growth through interviews with major businesses in the main sectors of the economy and evaluate its impact on the economy.

The October 2018 Business Visitation took place from 17 September to 4 October 2018, covering Lenakel (Tanna), Epi, Norsup (Malekula) and Luganville (Santo). Business visitation to businesses in Port Vila took place from 8 to 15 October (including 19 and 23 October). The visit team would like to acknowledge and thank all Respective Heads and CEOs of Business Houses for the meetings discussions held and look forward to similar participations and contributions in future visits/surveys.

II. OVERALL SUMMARY

Businesses across majority of the sectors of the economy viewed economic growth was generally stable in 2018 compared to the previous year. Economic growth was primarily driven by infrastructure projects. Economic growth in Port Vila was perceived to be steady or slow growth over the previous year; the services sector which accounts for more than 60 percent of the national Gross Domestic Product (GDP), is not feeling the boom in activities as expected. Tourism is quite slow in the first half of the

year but improved in the first few months after June, as peak months of arrivals (August and September) picked up. The growth in hardware retail commerce is slow reflecting the slowdown in major infrastructure projects, a stagnant growth in private sector investment and increased competition in the domestic market however the rest of the wholesale sector recorded steady growth over the year, a similar view presented by the banking sector. Manufacturing sector has improved while other businesses are still building capacity and maintaining business after 2015-2016 slowdown. The agriculture sector has dropped with beef industry declining tremendously in 2018 and this sector will take a few more years before recovery. Most businesses anticipate that the slow growth in 2018 will rebound in 2019 following expectations that the international airport extension should be completed and Air Vanuatu adding new planes will support the increase in visitor arrivals. Growth in cruise-ship visitor arrivals is projected to slow as a result of a projected fall in the number of cruise ships in 2019. Meanwhile, outlook on future economic growth is cautiously optimistic, as progress will depend highly on the main projects completed as scheduled, and constraining issues of concerns are addressed.

Economic prospects on outer islands looks promising and optimistic; however, the 2018 year performance is constraint by reduced commodity prices in 2018 and impact of natural disasters affecting production of copra and other major export-earning commodities. Other commodities such as kava and cocoa improved or remain stable. Kava production in Santo continue to remain strong. Views from the financial sector continues to provide an optimistic view of the development in the agri-business sector in the outer islands has provided a potential for this sector to grow despite constraints affecting production. The fall in production of major commodities drove farmers to divert to kava production and Regional Seasonal Employees (RSE) scheme to cover the loss. The manufacturing sector performance in Santo and Epi declined driven by drop in production capacity from the coconut oil mills, while construction activities relating to CCECC roads on Malekula continue to progress. Construction activities in Santo, Epi and Tanna slowed down following the completion of road infrastructure projects. A few construction for hotels in

Santo progressed in 2018 while private investment continues to remain stable. Wholesale and retail activities remains stable in outer islands supported by the strong pickup in kava industry while the relocation of Ambae evacuees to Santo has contributed to increased commercial business in Santo.

Overall, businesses viewed that the economy has a steady or stable (flat) growth in 2018 with a number of sectors noting negative outlooks for the short-term; however, the medium to long-term outlook is positive, with prospects for 2019 expected to rebound, with businesses' mixed views of outlook remaining cautiously optimistic to optimistic. Outlook is highly dependent on new plans boosting various important sectors such as tourism and scheduled project plans materializing.

III. SECTOR DEVELOPMENT – PORT VILA, EFATE

Introduction

Efate hosts the main capital town of Vanuatu, Port Vila, in the SHEFA Province. According to the 2009 Population Census, Port Vila has a population of approximately 44,039 people and made up 77 percent of the urban population (total urban population made up 24 percent of total population). Efate hosts a number of tourism sites (Blue Lagoon, Eton beach, Havannah Harbour, Cascades Waterfall, etc), major hotels and resorts that continues to receive more holiday visitors. The services sector is mainly focused in the main town, Port Vila (including the second town, Luganville in the Northern Province) which hosts the main business hub and international airport.

The main international port of entry, Port Vila Bauerfield International Airport receives more than 8,000 visitors per month. A Lot 1 contract signing (late April 2017) has allowed the rehabilitation and extension of the International Airport runway under the Vanuatu Aviation Investment Project (VAIP), funded by a soft loan from the World Bank. The rehabilitation will allow the International Airport to receive larger aircrafts than its current capacity and increased flights from larger markets.

Port Vila receives approximately 100,000 visitors per year and transit holiday visitors travelling en-route to the outer islands tourist destinations. Air arrivals to Port Vila account for 95 percent of total air visitor arrivals per year (103,401 visitors in 2017, a 16 percent growth over the year). The main domestic airline carrier, Air Vanuatu has code-share agreements with other regional airlines including Virgin Australia, Fiji Airways, Air Calin and Air Nuigini (*as well as Air New Zealand and Qantas who have both ceased flights from March 2016 following runway problems; however Qantas has re-commence its code-share flights to Port Vila from 15 June 2017).

Over the years, Port Vila, a main cruise-ship port continues to receive more visitors with approximately over 200,000 day visitors per year (total cruise-ship visitors to Vanuatu totaled 223,551 in 2017, a 13 percent increase over the year)

With the main business hub and international wharf situated in Port Vila, most imports for business services and household consumption are off-loaded in Port Vila. Port Vila receives approximately over VT30,000 million worth of imports per year (compared to Luganville with approximately over VT5,000 million worth of imports per year). Port Vila received VT33,102 million worth of imports in 2017. On the other hand, Port Vila exports approximately over VT1,500 million worth of goods per year (compared to Luganville with approximately over VT3,000 million per year). Port Vila exported VT1,790 million worth of goods in 2017.

Services

Tourism – Hotels and Resorts

Room Occupancy rates - Resorts room occupancy rate is relatively low in the first half of 2018 but increased in the second half of the year as a result of extra flight by Air Vanuatu boosting arrival numbers. One of the big resorts in Vanuatu confirms room occupancy rate for September 2018 is fully booked with 100% room occupancy rate (all 142 rooms).

Hotels within the Central Business District (CBD) of Port Vila have high level of occupancy rate due to its good location. Hotel room occupancy rate is relatively high around the level of 70% - 80%, a normal trend all

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throughout the year. The September 2018 room occupancy rate is 100%. According to booking.com, bookings have also been very high in August 2018, while tourism business for the rest of 2018 was relatively quiet and slow. Hotels such as Mooring Hotel, receive the usual corporate business clients as the hotel mainly focuses traditionally on business visitors, therefore, most bookings are done on a short-time or last minute. Business visitors do not book in advance like holiday visitors and is one reason why this segment of visitors' forward bookings for the next few months is quite unpredictable. Hotels such as Grand Hotel indicate a slow leisure business market and receive holiday visitors mainly from Australia and New Caledonia and a pickup in the Chinese market, while the New Zealand market remains stagnant.

Accommodation services is down but better than last year. A contributing factor is the cancellation of the Air New Zealand flights to Vanuatu (Air NZ ceased all flights to Vanuatu since 2016), and this is evident seeing Air Vanuatu flights to/from NZ are half full during the low season periods. Air NZ has also confirmed that there are no plans in the horizon to return to Vanuatu. Accommodation improved in the September-October 2018 period as visitors from Australia picked up during the school holiday. The tourism food and beverage sector remains steady, however the notable increase in local customers indicated increase in interest.

Room occupancy rate is low for the first half of the year (compared to 2017) partially explained by the increased number of holiday visitors choosing and traveling to outer islands for their holidays (and not staying in Port Vila). Additionally, Port Vila tourism business environment was harder in 2018 due to increased competition in the tourism industry. For resorts like Nasama, (the resort has 43 apartments with a total of 130 beds), the best performing month in 2018 was September 2018 which saw room occupancy rate increased from 30% (first half of the year) to 90%. So far, business performance is same as last year (2017), but it is harder in 2018 Room occupancy rate has recently increased to 70% for the months, September-October 2018.

Another upside contributing factor to the improved outlook for tourism (for September-October 2018) was the increase in Air Vanuatu flights effective June 2018. Increased flight frequency per week (additional flight with daily flights in operation) from the Australian market to Vanuatu boosted holiday visitors. Markets of visitors arrivals includes: 70% from Australia, NZ 20-30% and 10 percent from other markets. Visitor arrivals from long-haul markets like Japan and European visitors (through New Caledonia) rose over the year.

Increased competition in the market, but successful if better strategies are in place – for a number of hotels in Port Vila (close to the CBD) like Moorings Hotel have worked on marketing strategies to making appealing for their visitor clients. The hotels provide opportunities for hotel trainees from Australia and New Zealand tourism students to gain the experience in Vanuatu but also their ability to market Vanuatu tourism/hotels to families and friends. Businesses also offer conference rooms for conference/meetings. The availability of space, meal catering and accommodation, offered by hotels in the CBD makes it a better and cheaper option for conference visitors than the National Convention Centre. As a result, businesses view that there has been growing interest for event organizers to use hotels rather than the National Convention Center for conferences.

Business conditions – In general, tourism arrival in 2018 is a growth from 2017. Some (large) resorts are doing well while others are not doing well. Business is generally slow but with steady year-to-year growth, although 2018 was better than 3 years ago (post-TC Pam). Tourism businesses located on the route of cruise-ship visitor tours (to blue lagoon and around Efate Island) receive frequent visits and interests from cruise-ship visitors for stop overs at the resort/restaurants.

Due to the increased competition in the tourism industry market, various business view that conditions was hard in 2018. Hotels/resorts continue to experience consistent high level of overhead costs – particularly high electricity/utility bills.

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Investment-wise – A number of resorts have undergone refurbishing of their hotel rooms. Other future plans will really depend on whether the government will give incentives for investment into the future and increased confidence in the economy, then planned projects may continue. For smaller hotels in the CBD, recent investments in 2017 includes building of decks and refurbishment of hotel rooms. Hotel has focused on upgrading standard while price of hotel rooms remain fixed. Most small tourism businesses in Port Vila have done some refurbishment but have particularly focused on maintenance over the last year to maintain their business.

Current issues worth addressing to ensure sustainable and continuous growth in the tourism sector: there is currently lack of land to build hotels and no building-standard in place to build good hotels, and accommodation-types are not recorded/registered and not levied, so they contribute less or nothing to the main marketing and promotion funds of Vanuatu as a tourist destination. There should be proper standardized hotels who are registered and equally pay their levies to the main marketing fund. At the moment, there is non-compliance and only the large hotels and resorts pay these levies to the tourism marketing fund (views from Le Lagoon Hotel).

Majority of hotel needs are imported from outside including food as a result of the expensive domestic prices of locally produced products; although vegetables are locally sourced from the markets which is cheaper. Although local products (soaps and shampoo) have been bought from the local producers, the supply was not sustainable, so orders were imported from overseas/ international market where price is cheaper than the local market price. There is increasing demand for local produced products (soaps and shampoos), but need to be sold at suitable (cheaper) prices.

It is also evident that although visitor arrivals have increased, a number of visitors are not staying at the hotels. The Airbnb is also becoming an issue of concern to the hotel/resort tourism market, as most individuals or hotel-like business in this stream of business do not pay levy to the Vanuatu Hotel and Resorts Association, thus the Airbnb is not regulated. The Airbnb is

competing with the main stream tourism market players. Most sellers under the Airbnb stream do not pay business license and do not pay tourism earnings (levy) to the Vanuatu Hotel Resort Association (VHRA), as part of the Tourism Marketing Developing Fund (TMDF) which do not benefit the wider tourism industry. It is best for the interest of the tourism industry and should be “mandatory” that all sectors involved in the tourism business pay in their tourism levies; as currently, only the big tourism businesses are paying in this levies and not the small ones. The government should ensure that Airbnb is regulated to standards (and pay tax) for proper operations. It is expected that the current lobbying for all businesses to pay will be finalized and become mandatory for all to pay in order for ‘all’ tourism businesses to support marketing of Vanuatu as a tourism destination.

Tourism in Port Vila (and Vanuatu as a whole) is constraint by the currently low tourism marketing budget; and the difficulty in finding skilled and qualified workers that are properly trained as a lot of workers find job opportunities on (P&O) cruise-ships. This makes hiring of such qualified workers more competitive (for some operations, it may lead to increased wage increase in the tourism sector). Comparable with regional tourist destinations, like Fiji (Vanuatu’s competitor), the airline ticket for travel to Vanuatu is still relatively expensive and not affordable by travelers. The low level of security and safety of tourists needs to be addressed, prioritized and improved.

It is imperative that if the country is able to attract International Brand like the ‘Warwick Resorts and Hotels groups of hotels’ in Vanuatu, then visitors will tend to go for that brand as it is internationally well known. So more promotion is needed to attract international brand hotels into Vanuatu by providing them incentives to establish in Vanuatu and operate.

Forward looking

Tourism arrivals is expected to pick up boosted by Air Vanuatu’s plans to add 2 new planes by mid-year 2019 which will further increase capacity on major routes and expected to increase air visitor arrivals. Tourism will also be boosted by a new tourism marketing brand (currently in work-progress) and

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expected to support marketing Vanuatu as a tourist destination. The new tourism brand (taking over the 2009 brand – “what matters”) is due to be released soon, should be able to support the whole real meaning of tourism, capturing the involvement of communities and highlighting the true attraction of Vanuatu as a travel destination which will be appealing for travel tourists who choose to come to Vanuatu for their holiday.

Tourism in 2019 is expected to be higher than the 2018 levels. Resorts (a few that are not struggling) view that their business performance is expected to do well in 2019, better than 2018 (2018 is better than 2017).

Next year, in July 2019, Warwick Le Lagon has confirmed to host the 19th Global Symposium Regulators Forum (International TRR Forum) and confirmed that around 700 delegates will attend this global event. There is, however, concerns that there are not enough rooms to accommodate all these participants; there are ongoing plans for Warwick Le Lagon and other hotels and resorts will take up these expected increased number of delegates. There is issues of shortage of capacity to accommodate for this big event which falls on a peak holiday visitor arrival period (school holidays). Other than this, currently there are no new information of new resorts or hotels opening in the next 3 months 2018.

Proposals that will support growth and development in the tourism sector: Tourism development should include working closely with local communities – it is necessary for tourism operators or those in the tourism business to work closely with local communities – increasing their knowledge base of the importance of tourism to Vanuatu community development and the tourism products (culture or attractions) that are important to Vanuatu tourism. Tour guides/taxi drivers to village sellers should be able to talk about the history and tourism products to make it more appealing for tourist visitors.

Outer island tourism will become appealing for visitors, if they are guaranteed that they are safe therefore, there needs to be more effort to address safety issues and provide proper hospitals in the outer

islands which will guaranteed them that medical issues can be address if there were emergencies or outer island hospitals have the capacity to respond to accident incidents (if it should occur). Little things are important even if they may be very insignificant.

There is need for the government to further support and promote tourism in Vanuatu; most importantly the need for more investment into the tourism industry and value the high contribution that this sector does for the economy through providing employment and supporting sustainable development in the country as a whole. This includes putting the focus efforts on main markets of tourists: Australia, New Zealand and Air Caledonia and not undermine/reduce prioritizing marketing to these main tourist source markets.

The Airbnb which is an online community market place that connects people looking to rent their homes with people looking for accommodation is a new business stream in Vanuatu/Port Vila. However, it should be regulated; often bad experience of using the Airbnb are shared on social media, leaving a damage on the whole brand and image of Vanuatu as a visitor travel destination. This also refers to the unregistered tourism accommodations (e.g. Asian investment on accommodations).

There is high need for the government to provide more incentives to the investors to invest in the tourism sector in Vanuatu. Other recommended options of investment includes: the option of Financial Institutions (like the RBV or VNPF) investing on hotels or resorts (as there are similar successful examples around the world); creating more VNPF investment in hotels and restaurants so as to bring returns; investing in the stock-market for the agriculture sector which will that should have long-term impact on the economy in the long-term; investing a portion of the passport sales revenue to target tourism, a major source revenue for the country (by contributions through the tourism marketing and promotion fund) and new incentives should be provided by the government to support and motivate investors to invest and grow their business. Already it is likely that other markets of investors could be reluctant to invest in Vanuatu (considering the large increase in Asian buyers of passports) due to the issue of over-crowding by Asian investors and the

government is not doing enough to support them by providing them incentives; and the government should provide more fund support for marketing by the Vanuatu Tourism Office.

Little development has been made and a considerable amount of good waterfront land have been sold to investors, mainly Asians. These land sales should only be made to prioritized development investors who make realistic contribution to the economy by providing employment and development that will support the economy, rather than for speculative investment that does not bring economic development.

In quarter 4, 2018, there have been feedbacks that Air Calin will cut down on its number of flights per week; 2 per week to one per week. This may affect the travel times/options for visitors and reduce the number of holiday visitors/business visitors from New Caledonia and will affect business.

It is essential and important that there should be an appointed person to sell/for hire, the National Convention Centre; currently there is no appointment. The appointed seller/person should be carrying out 2018-2019 marketing for the National Convention Centre events (most possibly internationally organized events) for 2020. This initiative will bring revenue to the government and maintain the building in the long run.

It is highly recommended that the VHRA should gazette the tourism levy so that all tourism business pay. Currently a certain number of companies/companies are paying (only a few hotel/resorts are participating) while the rest are not paying in this levy or regulated and it undermines the budget for marketing Vanuatu as a tourist destination. All tourism business should contribute to the Tourism Marketing Development Fund (TMDF). The result of such shortage of funds – includes the instances of the cancellation of the VTO Road Show to Melbourne this year, although there is demand from buyers from the Melbourne market, potentially a source of tourist visitor market.

Looking forward, the 2019 outlook for tourism is optimistic. The new tourism rebranding will support

tourism going forward. The new cooperation between Aviation Vanuatu Limited (AVL), Vanuatu Tourism Office (VTO) and Air Vanuatu working together on a 10 year joint-strategy plan will help to drive tourism forward, a boost for tourism in Vanuatu. However, the increase in funding for the TMDF for marketing and promotion is essentially important as well. Otherwise, the challenge faced by the leisure tourism market will continue as it has been so far a difficult 2018.

Banking and Financial Services

Financial services business in 2018 – 2018 business sentiment is general slow. 2018 is a transmission year for the financial sector, as banks are involved in getting all the non-performing loans sorted out.

Vanuatu's national bank, NBV continue the progress work on financial inclusion and banking activities moving into increasing lending for Agri-business which has supported the increased interest in Pentecost and Santo where the kava and businesses have increased. With the efforts of financial inclusion and the unique case of Ambae volcanic crisis and evacuation to Santo, there has been high deposits by rural people (from Ambae) into bank accounts (and opening of more new accounts in Santo) for savings. This would be otherwise not done so, before. As a result, Santo has become a busy commercial location.

The banking system continue to endure high liquidity in the banking system – still banks are not lending due to the low demand. While banks dealing with rural banking has diversify to focus on rural lending to agriculture, rural business, rural land and RSE lending. Recently the local bank has seen a big increase in lending to Agriculture and small bungalows in North Efate – indicating the rise in interest for agri-businesses and local tourism projects. The focus on the local (ni-Vanuatu) market includes the introduction of ni-Vanuatu housing loans at low interest rates beginning October.

Views from other financial institutions (CCVL) confirms the progress and good performance made compared to previous year (2017). The business provides lending for commercial and mainly land transport. The completion of the road projects on Malekula and Pentecost Island has provided great opportunity for

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SMEs and small local businesses to grow. Good roads has brought good benefits for the 80 percent of the population of Vanuatu, living in outer islands and has brought opportunities by empowering and motivating local businesses to expand and grow.

These two sectors, Tourism and Agriculture are important sectors for the local economy. From the business point of view, customers buy transport vehicles to transport tourists from airport to tourism bungalows. There are increased interests from customers to buy transport vehicles for transporting kava (a major high-earning commodity grown for all islands across the country) for production and shipping. Therefore, it is important the government should increase the focus on kava for the local farmers and communities in Tanna and Santo. The increasing importance of these sectors to rural development makes it equally important for the government to continue to put additional priority into infrastructure development.

Evidently, there has been a big change in the mind-set of the local; there is increasing interest to buy vehicle for transport business and rural commercial business in the rural areas. On the other hand, there should be promotion of the Value-Added Industry as there is big potential for its contribution to the economy. Tourism is expected to grow with increased promotion associated with these new roads. The direct flight to Brisbane-Luganville flight contributed to the increased number of visitors to Santo and outer islands. Santo commercial market has picked up as result – demand has increased and transport businesses have increased.

Other banks see slow business sentiment for the last 9 months (ANZ bank). More achieved work was concentrated on simplifying and de-risking operations. The outlook is positive. However there remains key challenges: the income tax and grey-listing (which have been addressed in the year). Meanwhile, in 2018, there has been a decline in lending due to the strategies of de-risking and the projected growth in lending will depend highly on continuous optimism and confidence in the market.

In terms of financial inclusion, while some banks have concentrate on fine-tuning their products, others have rolled out new ones. ANZ has recently rolled out its

Go-money platform despite some delay and recently refocus a partnership with Unelco (Electricity Supplier) early October 2018 on the payment Go-money platform (version 1) offering convenience and improved efficiency in payment services for customers.

Other banks view 2018 as a better year than last year (2017). From Bred Bank's view, the banking sector non-performing loans (NPLs) have peaked and now start coming down. In 2016, cyclone Pam and the runway issues have impacted on tourism. It is most likely the runway issue has more impact than Tropical cyclone Pam; and one airline (Air NZ) halt all flights to Vanuatu. In the medium term, businesses are rebuilding capacity. The outlook is promising with expected new additional flights by Air Vanuatu operational from June 2018 onwards towards February 2019, which will boost arrivals for half of the year supporting tourism recovery. The positive outlook is supported by the new arrangement between Vanuatu Aviation Limited (AVL), Vanuatu Tourism Office (VTO) and Air Vanuatu working on a joint-strategy plan for the 10 years supporting visitor arrivals and tourism in Vanuatu. This joint-venture will provide support for funding that will and bring positive growth in Vanuatu.

The economy is growing positively with the increase in public infrastructure projects happening over the last two years. Now it is time for the private sector to ramp up private investment such as developing tourism; however, this is something yet to be seen (Bank of the South Pacific). The general sentiment shared by financial sector and all banks in general is that current economic activity is supported by infrastructure projects. With those infrastructure in place, most are waiting for the private sector to start taking over – but this has not happened as expected. There is high liquidity in the banking system, and there is aim for banks to drive credit growth, but there is no demand. The uncertainty in the economy, including speculations on the income tax and sustainability of the economy are issues behind investors still holding on their investment plans. The banking sector is keen to see investors investing, however potential investors still waiting to see what happens.

Banking operations - The busy business operations in Santo resulted in more additional workforce in the

northern island branches. The pickup in activity in the Tanna and Santo commercial centers saw an expected establishment of branches there or increase in the number of workers in existing branches. Most banks indicated that the number of ATMs have increased in 2018 and further increase for those banks introducing new branches in 2019.

The cost of operations has stabilized at the moment, however, for the local bank offering rural banking, there have been increased operational costs from operating all the branches (stretch all throughout Vanuatu). The cost of moving cash is also expensive. VAT has increased and cost of utilities rose as a result of increased cost of fuel. The impact of the VAT increase has inflationary pressures on the economy, all due to the increase in VAT and minimum wage.

Outlook of growth in 2018 - Expectation of 2018 growth to be flat compared to 2017; the GDP growth projections of 3-4 percent growth was primarily driven by construction activities, otherwise much of the growth is not realistically felt by other businesses; this is the general view from the banking and financial sector with views from NBV. Most of this growth is donor-driven so therefore expectations for growth in 2019 to remain flat.

The flat year in 2018 is mainly driven by donor activity, and since donor have a choice to bank in some banks and not in others, obviously, some will not see the material benefits of the donor funds into the banking system. Most importantly, donor funds do not affect asset/liability of banks, as the real activity is mainly sourced from business financing.

In terms of commercial financing, the full spectrum of foreign investment is still weak; much of the income wealth is from the tourism sector which is expectedly slow in 2018, and most investors are waiting for the completion of the airport and haven't really made any new investment plans yet. The new tax framework also brought a lot of uncertainty specifically how it will be set-up and developed, so far it has not convincing outcomes yet, as there need to be more settled discussion providing how the income tax will work to support foreign direct investment. **Currently, investors**

are not doing anything and a holding up their business plans.

Prospects from other commercial banks (Bred-Bank) notes there continues to be downside risks to future economic growth for Vanuatu. These future risks includes the frequent occurrences of natural disasters (cyclones) that will affect growth; therefore, the country has not build enough buffers to accommodate the effect of any future cyclones. There is not enough good years to build up the buffer again and there are risks of the country lacking the financial buffer to rebound if a future natural disaster does occur.

In the short term, growth is supported mostly by ongoing infrastructure projects. Tax discussion is another issue that have impact on investor's confidence in investing in the future. Investors will invest if there is clear discussion on the future tax implications (good and bad). General views convenes that income tax will not happen yet until 2020 election year and will depend highly on the political will by the new government to implement this new tax reform.

The positive outcome for the economy is the prolonged political stability that has brought confidence; but while the work on political strategies for government stability is good, the government could be missing out on spending time and money on more necessary agendas such as development of the country and fixing the airport runway earlier to avoid the problems (cancelled flights) that occurred in 2016.

Issues concerning investor confidence is on the rise from 2017 to 2018, the uncertainty surrounding taxes (income tax) is high. Investors are now starting to invest and few are still deciding where to invest; some are considering the low-interest rate environment so it is important to create a good investment climate and environment. At the moment, the banking system has high liquidity but there is limited demand for credit – but there is hope for this to change in the future for private investment to pick up, guaranteed that there are no surprises such as cyclones and change in government policies that may have impact.

Risks to investor confidence depends highly on when the extended international airport runway project will

be completed. The expected date of completion could be June 2019 but is highly dependent on the contractor's work progress on the runway is not delayed. However, risks are mitigated as much as possible to reduce the impact.

Other banks (BSP) also share similar views. Vanuatu has the potential to bring more tourists into the country which will have great implication for the economy but there is not enough investment to support this sector. Tourism marketing is a priority. And considering the high cost of air-fares, in comparison, flights to Bali is cheaper than a ticket air-fare to Vanuatu. Good strategies should be formulated to address what Vanuatu can offer to get tourists into the country, encourage cruise-ship visitors to spend in Vanuatu and good selection of tourism projects. Providing incentives and contracts for local businesses to work on these projects will increase the multiplier effect on the economy.

Air Vanuatu should support air visitors by giving them incentives; for example, considering subsidizing airfares. In Fiji, there are packaged deals to get visitors into the country. In Cook Islands, airfares are subsidized making visitors fares cheaper, driving up visitor numbers. Tourism has fallen in 2015 but is still improving. Vanuatu is a small country but have big potential, so it is important to focus tourism marketing on the 90% of tourist markets (Australia, New Zealand and New Caledonia) rather than other markets.

Economic growth is sluggish in 2018; the outlook of 3.2 percent GDP growth released by the IMF/World Bank/ADB is realistically too strong, and is not felt by the business in general. Bank loan market growth has been generally slow (weak) all throughout 2018 compared to the previous year. The ADB's growth of 3.0 percent might be right to include the infrastructure in place; but the cash flow effect aid money through projects is not felt in the economy. There is a lot of leakage from donor projects. There are still issue about raising revenue – VAT is not sufficiently collected – some businesses are not paying their VAT.

Foreign contractors that employs their own labour from overseas contribute to leakages of aid out of the country. Building infrastructure and stimulating the

economy is priority, however in the process, giving contracts to foreign companies leave local contractors (such as Downer) without projects, so money/aid is not circulated within the country. Government should make decisions to allocate relevant project contracts to local contractors.

The uncertainty from the income tax development and implementation is a reason behind why investors are waiting and not investing. There should be more clarity on the tax issue so investors can roll out business plans.

Forward looking

2019 will see a flat growth. The outlook for 2019 includes the continuous support through financial inclusion provided by the local bank, NBV, who have provided the establishment of 524 community hubs providing support for financial literacy to the rural communities.

In 2019, the banks (Bankers Association of Vanuatu) are focusing on work on an interchange IT project that will beneficially reduce the cost of transaction between banks. NBV has also embark on a mobile app that will support the rural and overall country.

The government need to focus on 'Infrastructure Resilience' as means to support those current development of infrastructure projects in the outer islands for the longer run. For example in Malampa province, there is great potential for growth in agriculture and tourism business, but there are a lot of rivers, and during periods of disasters, flooding rivers affect transport. Secondly, the impact of land disputes affect businesses in the province as well.

All financial institutions indicate efforts (progressively from 2018) and focus on financial inclusion and a number have targeted awareness to specific clients in terms of basic management and progress towards loans (mainly rural) supporting agriculture and tourism sectors – as business potential pickup in Santo, Tanna and Malekula. 2019 will also see new plans on financial inclusion rolled out. It is important for the government to find out the main product of each island (the underserved areas) by adding flavour and make it a unique experience, like the case of tourism experience and providing incentives for business

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development. Most banks are planning for future growth, investing and focusing on training and development. The support of the new work-in-progress interchange platform between Banks will also help.

Other banks (Bred Bank) concentrates on improving the asset quality of the bank. The outlook for 2019 will be a better year than 2018; non-performing loans have started to reduce and there is hope for sales (loans) to pick up. The bank will concentrate on fine-tuning existing products and focusing on electronic banking. It is good to see the government moving to electronic payment encouraging the government to get out of cash-handling and electronic payment will help.

New development in the banking sector will include the establishment and operation of the new Wanfuteng Bank Ltd (WBL) in the domestic market. It will target big businesses, mainly retail banking. Its difference from other banks is that, the new bank will not concentrate on financial inclusion like other existing banks do and likely the new bank will be faced with few start-up challenges but its progresses will pick up in a short term.

Despite the downside risks in the horizons, the outlook remains positive for the banking system. Alongside ANZ, the other three banks are now working on an electronic banking project that will improve and increase efficiency in the bank-to-bank operations. This new payment inter-change project will roll over to 2019 and the banking sector is working with IFC (an independent party) to oversight the work. The commercial banks have agreed on a framework and the current work-in-progress includes establishing the IT structure. The project is expected to be completed by end of 2019, giving access and connectivity for all banks. The new focus of commercial banks on electronic banking will reduce costs and acquire less cash handling, making payments more efficient.

There is an increasing and improving trend in the availability of aid into Vanuatu lately. As a result, there are increased delegation visits by these diplomatic agencies (Australia, New Zealand, USA, France and Japan) to Vanuatu this year 2018 and

further announcement of the proposed new establishment and opening of British Embassy and Japan Embassy in Vanuatu in 2019. The strengthening and increasing diplomatic ties attributed to more aid funds available, good for Vanuatu guaranteed funds are put into productive use.

The submarine cable due to be completed by 2020 will bring a lot of positive impact for the Vanuatu economy. This cable will run through from Solomon Islands to Santo. The improved data infrastructure will encourage and stimulate growth in Santo economy. The Australian Government will fund the PNG/Solomon Is cable, and with the Fiji cable also running through, Vanuatu will benefit by having a backup investment on both cables. The progress and impact of the submarine cable is positive and will make Vanuatu an attractive investor destination.

Vanuatu's removal from the AML grey-listing has supported the banks although it has taken quite some time; and Vanuatu still needs to work more on this. Passport sales involves a lot of risks if is not controlled. Banks operations does not accept funds on compliance for legitimate reasons and do not deal with high-risk industries.

For other banks (BSP), the outlook for 2019 is focus on growing the loan market share. The economy will grow, however, there is a big risk if the market is not growing. Aid and tourism are the two main drivers of growth. There is optimistic outlook for Vanuatu and the economy will benefit from this, if more support was provided for tourism in Vanuatu, becoming more tourist-centered and making it cheaper for tourists to visit Vanuatu (currently it is expensive). The outlook for tourism for 2019 is positive supported by Air Vanuatu's plan to introduce in 2019. It is important that the government create a 'certain economic environment' in order to grow investment and confidence in the market.

Wholesale and Retail Services

Wholesales retail in 2018 - Wholesales retail in 2018 is better than 2017 (views from Punjas Ltd) with the business recording slight single digits growth (less than 5% growth). Over the last 9 months, business performance is up and down, economy is not that

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stable. Unaccounted for cyclone occurrences, it is likely that everything might go well from towards 2019.

Part of the reason for the slowdown is due to tourism, a major contributor to economic activity is slow; however the new upgrade of the international airport has started, there is bright prospects for more arrivals from the Australian and New Zealand market upon its completion in 2019. Cruise-ship arrivals is quite slow with just about 2 cruise-ships per week, so far in the second half of the year; this may have impact on tourism spending as well.

Copra prices have dropped, although kava export has picked up.; and this will affect rural spending. The dry season has affected vegetable and root crops production. The impact of the Ambae volcanic eruption contributed to increased humanitarian aid support to communities in relocated areas, and the demand for basic items (such as biscuits, sugar, tea and rice) have picked contributing to an increase in business in Santo. For Port Vila, it is business as usual with no change from the previous year and also it is not a hub in strong business growth as it does for Santo right now.

Business performance is also depended on the supply and demand in the market; and the need to stock reserve merchandise goods. In 2015, demand for stocks rose due to the impact of TC Pam. In 2018, wholesale and retail business has pick up with increased demand from the outer islands, particularly locals with the increased distribution from the Santo branch.

Various other wholesale and retail shops have re-focus their business sales strategy to focus on outer islands and have seen increase in business and distribution to the Pentecost, Malekula and Tanna markets (views from Esah Corp Ltd). Santo business performance is up and down. Market continues to fluctuate due to increased competition in the wholesale and retail sector. Merchandise product prices have increased as a result of the VAT increase earlier in the year. The level of competition will further increase as the new entrants to the wholesale and retail sector begin operation. Some wholesale and retail stores have also lost some big business customers from Ambae Island following the impact, as local-operated

businesses close down and relocation of people to the island of Santo and Maewo.

For other wholesale and retail, generally, performance of the business and the economy has been steady (and quiet) so far in 2018 (views from Au Bon Marche), specifically following the weak and slow sentiment from the hotels in Vanuatu; aside from the infrastructure projects that are driving up construction activity in the economy. Sales from the wholesale business is generally pretty steady compared to the same period of last year; it is the normal growth but is steady.

The boost from the infrastructure projects and spending from returning RSE seasonal workers contributed to the money circulation in the economy thus so far it is good for domestic economy. The small increase in business was associated with the recent evacuation in Ambae to Santo/Maewo which saw increased orders for supply of groceries/humanitarian aid to those evacuated communities. This was inline with the increase in government budget support to this disaster crisis.

In terms of retail shops servicing the local and tourist markets (duty free shops like Fung Kuei), 2018 is a difficult year compared to 2017 and 2016 (this is likely evident from the VAT returns from customs from the monthly reports on domestic and duty free commercial activities, produced by the business). 2018 is a difficult and steady year (as compared to previous year, and weather didn't cause much disturbance (for Port Vila) when compared periods of 2015 TC Pam. In terms of Duty Free, sales are consistent but are down compared to 2017; this is evident from various closure of retail shops (x3) which includes Tusker closing a retail store.

For those retail shops (Fung Kuei) in the CBD of Port Vila, much focus was on restructuring shops – introducing new products and brands at competitive price and quality with regional and domestic competitors. Part of the progress of meeting competition, businesses have focus on training staff and staying competitive in attracting cruise-ship visitors and maintaining the market share.

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In terms of the local market, business sales have declined – a fall by double digit. The reason for the fall is that there is **increased competition** in the local market. The local market has grown big and strong. For example, Digicel and TVL now sell hand cell-phones and not just connectivity and that is the reason why Fung Kuei and other retailers of hand cell-phones may lose market share. The local market has changed becoming more flexible; and now the Hardware shops now sell television, something they haven't done so in the past. Domestic business has declined, only meaning that business has flow to other uprising business competitors and retailers in the market. For other wholesales, business has fallen down, businesses are finding difficulty due to fewer customers, the local market is not strong and majority of locals now spending more money on other personal items (mobile phone refills and kava) and less on groceries.

Overall, the Duty Free business is consistent, but the local business has declined. The business has lost the local business to other businesses who are likely to sell at a lower price – but are affordable for that local market.

Business operations – few businesses have not reduced labour but maintained the number of workers and the working hours are relatively same as last year.

Wholesale and retail includes distribution to major islands like Tanna and Malekula, outer islands and other retailers in Port Vila (view from Esah Corp Ltd). The Free On Board (FOB) price or freights are expensive. There are shortage of ships for servicing the islands (a few local ships are undergoing repairs), resulting in cargos on halt at the wharf. The completion of the new Lapetasi International Wharf project helped weekly inward shipments (imports).

Other businesses see no change in employment. Recruitments involve recruiting new staff and replacing old staff all throughout the year. Domestic prices rose in 2018 compared to 2017 due to the VAT increase and the impact of the appreciating US Dollar which means importers need more vatu to buy imports, and increasing cost of shipping to outer islands; this increased the cost of imports for the wholesale

business. Rice is particularly imported from Vietnam, Singapore and Indonesia, therefore, rice price remain relatively stable. There is relatively no change in the utility costs.

Minimum wage has increased the same time VAT was increased, so there is no real effect on purchasing power of the domestic market. Considering all these, rent room cost and bus-fare has increased, so domestic consumers are purchasing at the poverty line. Majority of workers are at the minimum wage payments, but still cannot afford quality products.

For bigger wholesalers and retailers (Au Bon Marche), employment has been picking up in line with growth in business. The increase in population growth and the increased demand were the main contributing factors.

Outlook for growth in 2018 - 2018 should be a good year with sales around the same level of last year (Punjias Ltd). On the other hand, profit is expected to fall due to the increased competition in the wholesales industry, as more businesses bring in the same product and compete with each other. Competition for the same product is good for the consumer (prices remains relatively stable); but the wholesale and retail suffers as profit falls and the most likely the end result is reducing labour.

The retail business has been doing well with the latest development in agriculture sector and the government's support for the PACER-plus is good for the country in terms of major trading partners providing the services and goods for the country (Au Bon Marche). From the point of view of retailers, such opportunities should be explored more to maximize the benefits from the pacer-plus trade agreement with Australia and New Zealand.

The wholesalers/retailers is a buyer of local produced agricultural goods supporting local producers and vegetable suppliers. The local project of planting onions and potatoes have been successful, however, in order to sustain this into the future, domestic supply needs to be sustainable to address the current issue of increased domestic demand and shortage of supply to the wholesales outlet. Majority of retailers need to

import to fill up the shortage of supply. The recent land law implemented by the government for agricultural land leases in rural areas that will restrict leases converted into residential leases/subdivisions and pay tax to the government; this will bring some positive support for development of agriculture and support productivity in the long-run.

Beef production and supply has decreased and is an important serious issue affecting the economy. There are various land disputes that continues to affect the productivity and agriculture development in those areas. There is a need for Pacer-plus agreement to be explored more and expose the country's agricultural production to the outside market as well.

In 2018, there is an expected fall in cruise ship number; 2017 received 180 cruise-ship visits, 2018 with 120 and 2019 has an expected 80 cruise-ships to Port Vila. So there is need for the government to support and increase marketing of Vanuatu as a tourist destination, to boost the economy. From the point of view of duty free retailers (Prouds Duty Free), with the increase in options available, more cruise-ship customers tend to travel around Efate than do duty free shopping at the shops. There are concerns also the shortfall in VAT collection could be related to the fact that import duty from imports for construction (machines and equipment) are exempted, so with the high level of infrastructure project in the economy, there are still less revenue collected.

The current activities in the economy in 2018 is the building and infrastructure construction industry and some contribution by RSE workers. Otherwise, activities in Port Vila is generally steady with few developments happening around town.

Forward looking

The good infrastructure and roads in place will support business performance. As new roads to remote areas are improved, demand for grocery supplying businesses in remote areas increases, an opportunity for wholesale and retail sector to increase.

Wholesale and retail currently face difficulty to ship goods on vessels, since shipping vessels are fully booked or loaded. This process often wastes a lot of

time and incur high expense of transporting supplies to wharf if they are not shipped out. It is recommended that government should look into increasing the number of vessels servicing the islands that could address this problem. The freight costs is mostly inter-island costs related. There is lack of competition in shipping industry which contributes to the high costs. Stevedoring fees charges are relatively stable; cost has come down which are transferred to ships but hardly to the customers (as much of the cost occurred by customers is due to lack of competition, bidding up prices).

There have been an increasing interest by the Chinese developers and investors that are putting pressure on development in the country. It is important that the government needs to manage this well into the future. 2019 is expected to be a quiet year as compared to 2018. With the fall in the number of cruise-ships, it is expected that, earnings will definitely fall (the example of a bus-driver transporting cruise-ship visitors, will encounter a fall in earnings into 2019). 2019 is anticipated to be a difficult year for cruise-ship spending; 2020 cruise-ship is expected to increase to 150 (although not confirmed), but the cruise-ship industry is expected to rebound. As Vanuatu continues to grow and develop, it is an important to educate people about a new mind-set on keeping Vila town clean as there is need for more enforcement keep the town clean.

Seasonally, the Christmas season is usually a high spending month, or increased sales; outlook for 2018 is expected to be steady compared to the same period of 2017. There is good optimistic views for 2019 when the infrastructure projects are expected to be completed; extension of the international airport completed and air flights increased. Things will improve further towards 2020, but it will depend highly on the 2020 election, any further future plans by Government for introducing the income tax, and whether new investors are buying new land, etc. as part of investment.

The outlook for 2020 is uncertain; it is an election year, so it is highly dependent on the outcome of the election; there remains potential impact of cyclones occurring; and the government work on new policies

such as the VAT or the income tax. The uncertainty around plans of income tax will have impact on expatriates who are expected to leave. The unforeseen prediction about income tax is hurting businesses and creates lots of uncertainty – the government should be clear and transparent about the development of this new tax and need to transparent and advise in advance in order to minimize the effect on businesses.

Future plans is positive, business view improvement. With the current changes in the country, the business and other business should continue to grow and keep up with change. The positive progress for some well-performing business spells a positive outlook for the future and one or two major businesses have plans of diversifying to other sectors such as hotels (tourism) if the current performance progresses well. The economy should continue to focus on Tourism – the main driver of economic activity – efforts and commitments should be growing and developing the tourism sector as its spillover effects will benefits the rest of the economy, as well as to individuals and businesses.

Industry

Manufacturing

Manufacturing sector performance in 2018 – For a while, there have been tough financial situation in the economy due to severe cash-flow challenges in town as a whole (view from Azure Pure Water Ltd). And there is surplus capital in the commercial banks (high liquidity), however banks are conservative to lend to the market at the moment. All these are stifling economic growth, and the lack of economic stimulation and the challenge of imported cash and labour is contributing to funds/earnings moving offshores.

The employment market from the manufacturing industry point of view has been quite hard/difficult, there have been 5-6 new written applications per week, looking for work indicating the high level of interest in the market which is good, however ni-Vanuatu job seekers cannot find job.

For specific businesses such as Azure Pure Water Ltd, the business has seen a month-on-month growth in sales and turnover has increased over the last year. The business has also secured contract to supply to P&O

carnival for the next 3 years and expected a projected increase of 10 percent in sales. Although the business outlook is pessimistic, the turnover figures are optimistic.

Access to capital is still a concerning issue for the rural local population. There is viable funding and suitable sized funding but with very minimum access to climate change or the IMF funds – these funds are too large that the rural and local SMEs are not able to access this large amount – there is nothing in between to support small businesses (such as micro funding). There is need to support small and micro businesses, and enterprises such as mamas and Lapita Café are proved successes. Opportunities for SMEs should be made widely accessible through access to finance – currently, only a few, such as NBV are working hard on this and supporting financial literacy, while there remains in general the lack of access to finance from other potential funds/organizations.

For other manufacturing and exporting business, performance has improved with turnover increasing over the year (Cellovilla Ltd). Seasonally, January-March is usually quiet, but in 2018, sales have picked up. The turnover for the month of September 2018 is the same as peak month of December 2017. The business's export to New Caledonia rose in 2017 contributing to increased productivity from the factory. The business has stepped up more work on wholesale and retail in 2018, and turnover has increased. It is recommended that the government should put more emphasis on increasing import duties on imports of similar products imported from overseas, in order to support the local export industry.

Business operations - The majority of the business viewed there is potential to supply the local economy. The impact of the MSG agreement show that there are no duty charged on the imported rolls into the country; so the increased imports of products affects the local manufacturing businesses who are struggling to survive.

The economy's future is unpredictable at the moment as most ni-Vanuatu are not getting employment. The chamber of commerce has concerns that foreign labour is filling up ni-Vanuatu posts. The

increase in VAT affect business contributing to general price increase.

Manufacturing industries that rely entirely on the domestic supply of raw materials are affected by natural disasters and takes time to rebuild supply and bringing their product to standard quality. For example, ACTIV Association, Chocolate depends on cocoa quality – a requirement for the market. The Association worked on building a facility in 2013 and not able to open before TC Pam. As a result of the cyclone, the business halt operation for 1 year as a result of damaged cocoa. From June 2016, cocoa production recovered (April – June 2016). From 2018, the facility is now in full operation supplying the local market and focusing on improving quality. Due to the increasing cost of production, the association has been progressively exporting and focused on securing active export markets.

Outlook for growth in 2018 – Generally, businesses do not agree with the IMF/World economic growth forecast of 3-4 percent; if aid project was removed, there is likely negative growth and growth could well be flat or negative.

Overall, the view of the economy on the short-term is pessimistic.

The government should target projects on local development – money spend outside the country (e.g. imports) are not contributing to the economy.

In the medium-term, the completion of the international airport extension will supply resorts and hotels with tourists/visitors. The outlook for the potential (proposed) new development of the Royal Caribbean Project on Lelepa Island due to be completed by mid-2020 is expected to bring positive returns for businesses such as Azure Pure Water. **Otherwise, businesses sees minimal reinvestment until there is generally a good confidence and assured future growth.** Vanuatu Investment Promotion Authority (VIPA) may need to make a priority in stimulating investors to invest between the short-term and long-term. Government policies have been consulted with the public but some are not receptive, as there is not enough consultation that covers the downside effects (not only the positive effects), that could potentially impact the economy.

Since April 2018, Azure Pure Water Ltd has been supplying to 2 cruise-ships – Pacific Jewel and Pacific Dawn – and the outcome has been positive. The business exports 3-6, 124 feet container, per month. In value-wise, this product is one of the top export of the country. The demand is expected to increase with the expected 70 ships expected, following the Royal Caribbean project on Lelepa Island. This project is expected to be completed by **March 2019** and will see the set-up of a day-visitor resort on a lease land (Lelepa) by the cruise-line. This will increase cruise-ship employment and boost opportunities for outer island/Lelepa as well as Vila and is a revenue stream for industries and food companies.

The raw material industry greatly supports the local economy. It is important to address the challenges and giving confidence to the investment will get customer confidence. It also requires increased expertise of staff to work in the industry. So it is very important to build up the skill set of workers in the industry – so they can stay in the job and train others. Therefore, employment investment in industry is equally important.

The MSG agreement falls around the all notion of “Feed Fijian product, eat Fiji product”; Vanuatu should take the same concept and apply for Vanuatu. Vanuatu still imports from overseas, but the local industries such as Fiberglass Vanuatu still struggles. It would be appropriate to place import duty on specific import goods, that local industry is already good at producing. Local industry should be protected because it is source of local employment. It is also important to produce and export locally since the local population pay inside the country and money goes back to the country; and exporting overseas also brings money to the economy.

Generally, economy-wise, there are new Asian investment. The Asians are building new resorts – MG Resort has bought Cocomo Resort and building the new MG Hotel development next to Tana Russet. There has been an increase in Asian (Chinese) investors in the country, majority investing on retail shops.

The government should support the value-added activities and such progress have been successful for

specific associations. ACTIV association acts as a trade facilitator with farmers from different island supporting productivity for other products as well – Aelan products, spices, kava, etc. The association focuses on value-addition and since 2013, Aelan Chocolate started with export trials to Australia and plans to move into the Asian market.

Forward looking

From mid-term to long-term, the economy is improving. However, it is imperative that good regulatory policies needs to be in-place to prevent financial crisis, strengthen finance and economic management and project plans are carried out as scheduled.

There are mixed views, but there is potential for the industry sector to develop and explored. Tourism should be the first prioritized, Agriculture and Aquaculture should be second. It is essential to develop industries in Vanuatu and up-skill workers. There is need for more focus on agriculture and aquaculture. Opportunities should be given for ni-Vanuatu to do this – increase local employment and keep money flowing in Vanuatu.

Department of Trades should increase and impose proper standard of local production in Vanuatu and maximize on opportunities to progress to the next international standard. In doing so, Vanuatu can provide products for the international market. These can be supported through access to finance through financial authorities that can be made more efficiently available for the local industry. Third party finance for construction and healthcare funding was successful for Singapore, so it can be successful for Vanuatu as well. There is potential for setting up Tourism and Food Hubs in Vanuatu. Overall, a holistic approach at an appropriate scale in addressing these issues is essential.

2019 outlook on business performance is expected to be the same as 2018. The industry businesses are optimistic about 2019 year; the business focuses on best performance and raising the standard and quality of its products. The government should consider introduction of Price Control Unit, improving enforcement on businesses who set high margin prices in order to protect the small end consumers from increased prices.

Local industries should follow the example of leading industries and try to market in niche market and concentrate on high quality product, and meeting the high price in the market. For ACTIV, the focus has shifted to Australia, and New Caledonia market. Now the association is slowly moving into the Asian market, focusing on China and Japan. The current focus for the business is the Asian market, such as taking part in the Asia Shanghai Expo in March 2019. Current projects focuses on training of farmers from Epi, Malekula, Santo and Aore.

One forward project that is likely to extend to 2019 is the rehabilitation of cocoa plantation (VRTC). By genetic mapping, by promoting genetics of each island by working on the variety through cocoa nurseries for each island. Once this is done, seedlings can be sent to those island and support is provided to farmers to grow these. This work was done by an Australian research team from May – September 2018, and results should be out by March 2019 showing which genetics grows best in each islands, so farmers can focus on growing. The other project also includes agro-forestry – which are all good for climate change adaption and whose outcome will result in further funding support from EDF11.

The spice market is doing well than production, however, domestic market demand still increases on shortage of supply. ACTIV provides local trainers on growing spices with local sales to shops and retails; these are all community produced products that supports and contributes back to the community.

Overall, there is positive outlook for the industries sector, despite challenges remains.

Hardware Retail

Hardware retail performance in 2018 – Post-TC Pam years, 2015/2016, the hardware retail business has been growing as demand for ongoing reconstruction projects rose. But after 2017, reconstruction projects have waned down and business supplying building materials experiences a slow and steady growth. For 2018, projects have been reduced, therefore business performance have been slow. With the completion of major public projects, hardware business like Wilco

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Hardware now focuses on small value projects and business growth has normalized to its normal trend. This year, the hardware has focused on tender projects to supply materials for rebuilding schools in the outer islands.

Competition in the hardware retail has picked up. There are more hardware retail compared to previous years; Mr. Price, Leon Hardware, Pacific Timber and Hardware Vanuatu (PTH), Vila Distribution (has new branch just opened in 2018) and Computer World is also selling electronic appliances. As a result, business in 2018 has been quiet or slow. Vila distribution Ltd has opened a new extension, Leon Hardware has opened from March 2018, with Mr. Price opening soon.

Since business performance is generally steady, other hardware businesses may be facing a harder time. Some business have reduced their number of working hours while for businesses, it is obvious that business is not good and hardware stores now open on Sunday and public holidays, etc accommodating the extra houses to keep business up.

Hardware Santo branch is growing; the impact of the evacuation of Ambae communities to Santo has seen increased demand for building materials for rebuilding houses for new settlement. There is potential for business to grow in Santo. For the local market in Port Vila, most household customers shop mainly to buy materials for maintenance and not so much for new projects or house/real estate buildings.

In the solar retail business, there has been increased competition in the solar power retail in 2018. The Vanuatu Rural Electrification Program (VREP) program has been slashing costs. Greentech is not part to of VREP, so do not receive the 50% subsidy that other 3 competitors have received from VREP. With the increased competition, businesses like Greentech has seen a reduction business turnover for 2018 and currently working on sub-contracts with Unelco concentrating on extension of power. The business in 2018 was mainly focusing on balancing loss with new activity through the sub-contract with Unelco.

In the computer and electronic appliances business, over the last 9 months, business like Computer World has extended to new fields and increase the range of products offered for sale. The business focuses mainly on laptops and computers, but with the decline in sales, the business has (over the year) ventured into new products such as speakers, solar and mobile phone sales in 2018. Every year, the business is getting better than other competitors and made regular distributions to outer island customers. The business is due to open a new Solar Shop near Computer World.

Business operations – There was no change in the number of employees in the hardware businesses while other well-performing business have increased their number. For other businesses, feeling the effect of competition, the VAT increase effect and reduced number of workers as a result of closed branches/outlets in outer islands (those affected by the Ambae volcano).

In terms of shipping, stevedoring fees have fallen, with reduced cost of handling containers. Businesses also faces difficulties with the recent appreciation of the US Dollar currency making it more expensive to buy from overseas.

For other business, the increase in minimum wage has supported sales; there is more money in the economy, and customers (locals) are able to purchase more (unlike the previous year, which was quiet). Product price has increase and sales have gone down.

Outlook for growth in 2018 - Initially business for 2018 is driven by few requests from tourism, schools, and other islands wholesales customers and few hotels have been working on maintenance in the year, indicating the low level of private investment in the country. One contributing factor for this slowdown is business are been charged with so many government fees – inclusive fees at the immigration – such fees has the potential to stop investors from investing.

Generally, for a few well performing hardware stores, sales have picked up as a result of increased wages; but generally a result of diversifying to sales of other products as part of the business. This includes

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opening new branch in 2019 and working on new investment plans.

Forward looking

The outlook for 2019 looks positive; business performance will remain steady from 2018.

On major hardware business in Port Vila - Wilco Hardware will be working on its new investment for 2019, a new building extension project called Wilco Home Centre expected to be completed before December 2019. Construction have started and will progress towards the end of 2019. The new Home Centre will sell TV and white furniture.

The government should also re-consider giving contracts to Chinese companies that set-up in Vanuatu in the future as most of these businesses import their workers (expats) and do not employ local workers. VIPA should priorities businesses that support increase in local employment. A majority of existing businesses have been set up for some time and have worked with locals. There needs to be enforcement of laws implementing 4 times a year surveillance of companies, it is a requirement to ensure that business companies are paying minimum wage, paying VAT, etc.

With the future introduction of Income Tax, it is important to enforce and implement control first - even now, not all businesses are not paying their tax fairly; it is only the honest companies are paying. The implementation of the income tax has risk of stopping FDI into the country. There need to be improvement in existing laws in order to implement the 17% proposed corporate tax. It will impact on workers. Before implementing the income tax, there is high need to firstly increase access to education, health and infrastructure.

It is likely that revenue from passport sales stops – the country will have to implement an income tax. A reduction in government revenue will mean that the government will not able to pay out its loan. Due to these financial uncertainty, investors will be cautious and put their money elsewhere. There need to be more enforcement and control in revenue tax collection.

Vanuatu should provide more support for FDIs into the country – providing opportunities for access to finance. These investors could find elsewhere to make a good investment, but they have chosen Vanuatu. The outlook for 2019 is cautious (optimistic), businesses are likely to hold up their investment plans until things start improving.

There is potential for tourism to develop further in Vanuatu. There should be more efforts to increase tourism in Vanuatu that should boost air visitor arrivals to the hotels and boost tourism spending in the economy.

Real Estate

Real estate performance in 2018 - The first half of 2018 is very good, there have been regular sales with interests from local while the overseas clients remaining steady (Caillard Kaddour). The rental market has performed well over the year. Sales of properties have declined in August 2018, but the Asian market continue to increase. There have been a slowdown in the Australian market; could be due to the slowing Australian economy, the Australian market is drying up and less demand.

Real estate businesses in particularly Caillard Kaddour, have plans and expected that some of its projects were to start in 2018 but these projects have been delayed; these projects include Port Vila Harbour project and the White Sands Project due to kick-start June 2018 has been delayed and expected to start in 2019.

Real estate business see 2018 as an intermediate year; 2019 will rebound in economy. The new joint 10 year plan by AVL, VTO and Air Vanuatu will support tourism going forward. Air Vanuatu has planned for taking in a bigger aircraft in 2019 and AVL's progress on work on the runway and the terminal will see progress for these plans to eventuate, with further support by Air Vanuatu and VTO who are currently working on new tourism marketing and brand. These new developments could see Air Vanuatu flying to new routes, Melbourne – this will depend if the new air craft ER190 is decided by end of 2018; and also receiving chartered flights from long-haul markets.

At the moment, the New Caledonia market business is slow. Business investors are looking for other potential investment locations in Vanuatu. They are also still waiting for outcome of the referendum for New Caledonia before making a decision, therefore the market has slowed down.

Perspective view from the real estate businesses shows that market has been down for the 9 months of the year. Over the last 2-3 days, the business have seen some pickup in enquiries on rentals and sales. 2017 was a good year; 2018 has begun to slowdown but has just pickup. In October, enquiries are coming in. Interests from the local market has picked up, while sales and rentals to the Australia, New Zealand, New Caledonia markets have picked up slowly in Port Vila. In September-October, a pickup in market demand for rentals, residential properties and land is faced with less supply in the market.

Business operations – One or two real estate businesses increased employment to accommodate for new business ventures, mostly casual workers to do property cares and maintenance. Overall, employment has been steady.

Outlook for growth in 2018 - Real estate business view growth in 2018 is stable and much slower than the IMF/World Bank forecast of 3-4 percent; there is no real growth, but there is expected rebound in 2019. The positive outlook with the expected planned 2nd stage for Port Vila road to start, making the town looking much better. There is potential for the next part of the project to follow after phase 1 is completed.

The Santo market is steady and growing. There is very good signs for the future of Santo market. With the extension to the runway completed, Air Vanuatu has plans to introduce more flights. There are also prospects that one or two high standard hotels are still reaching their standard level following their opening last year, 2017 (Ramada Hotel), and the future for tourism is quite optimistic with the Air Vanuatu airline introducing new flights in 2019 that will boost tourist arrivals.

Forward looking

2019 outlook is positive. There is opportunities for more chartered flights that will put Vanuatu online and possibly have new interests from new tourism markets. The outlook ahead for Vanuatu is positive and optimistic. There is the vision of Vanuatu becoming an airline hub where New Caledonia clients will travel through Vila to Asian markets.

Some development projects (under the real estate companies) are expected to take shape from 2019 after a few delays in 2018. Caillard Kaddour's two major projects will take place in 2019. Port Vila Harbour Centre with building of apartments and commercial business and the White Sands project includes building of a hotel, resort and commercial centre.

2019 and 2020 outlook is good and optimistic with the completion of the wharf and the international airport upgrade will support and increase economic activity. The increase in the direct flights will also help boost the economy

Transport (land)

Transport (Land) performance in 2018 – For the rental sector, trading business has been doing well over the last 6 months, however the cost of doing business is high and there remain challenges. Up to June/July 2018, the business has to work hard (twice) in order to get the same amount of business as last year. There are not much interest from the cruise-ship visitor sector as most are transported by tour operators.

The level of competition is high, as the business focuses on highest standard service but getting brand new parts and services properly done. This is compared to the low cost of other car rentals in Port Vila. There are issues of not enough qualified workers out in the market; as per requirement recruitments are based on bi-lingual compatibility of staff. There is need for more workers trained to professionalism.

For the vehicles retail business, market demand rose in 2018. There has been increase in vehicle imports; evident of the increased vehicles imports at the wharf. The issue with the urban projects and the airport is that

these projects are contracted to CCECC which means a lot of the equipment and trucks are imported from overseas. Most of these project needs (transport equipment and vehicles) are not supplied by car dealers like Intraco.

In 2018, Intraco has supplied vehicles to Tanna Island and have opened projects in Santo and Tanna. The projects also include supply of vehicles for the climate project and locals from the 2018-2019. There are also prospects that cruise-ships will increase for Tanna and Santo in 2019 and 2020; therefore, there is increased interest from the local market for purchase of transport vehicles. There was also an increase in auto-repairs and sale of cars have picked up in 2018. As a result, cash requirements have picked due to the growing market – but constraint by cash flow issues in the bank.

Business operations - Cost of getting vehicle parts and imports are high in Vanuatu compared to other countries.

In terms of overheads, the business continues to encounter high cost of electricity. Often with international transactions with international customers, it is often difficult to use EFTPOS machines that do not accept cards from different banks; with expectations that this will improve in the future. There needs to be a structure in place to support businesses to get people to pay rental vehicles – there have been some improvement, but requires more work.

The standard of workers professional can be improved through exposure to overseas experience and professionalism, and ability to speak in bi-lingual language to serve international customers. And the importance of educating and training the workforce in Vanuatu is equally important.

The recent appreciation (stronger) US Dollar – means that imports are expensive and buying imports with USD is expensive. This also determines the selling price of vehicles in the market. On the other hand, the tariff on import of vehicle is much cheaper but tariff on cargo is high.

Due to the technicality of the work required and increased service demand, business like Intraco has increased employment over the year while others have kept the same number. There is great demand for workers with technical skills; these businesses also provide support through technical training of its personals overseas.

Outlook for growth in 2018 - The economy in general has improved a little, but airline airfares are still more expensive while aircraft flights are not fully booked. The rental trading business performance has improved. In terms of sales, there is an increasing interest from customers in rural areas in outer islands for buying vehicles – through kava planters and RSE workers for the purpose making transportation business and also to transport kava to the main commercial centers.

Forward looking

Business expectations for 2019 to improve. The current work has been done with the support from NZ and NC wholesalers that will continue to provide promotion following the TokTok event recently held in Port Vila. With major projects coming to completion, including the airport project, it is expected that the tourism sector will improve if the completion of the airport is expected bring more visitors once completed.

Telecommunication

Telecommunication performance in 2018 - Telecom Vanuatu Ltd (TVL) has built more towers in 2018, with coverage extended to most remote areas around Vanuatu. Some challenges in the year are expensive equipment due to increased prices and appreciation of the US Dollar increasing cost of imports.

The trend in landline sales indicates that customers are moving away to mobile phones usage, households use more mobiles phones and SMEs businesses use landlines. The sales have slightly dropped in 2018 compared to 2017. In terms of mobile phone usage, sales remain steady over the year and is dependent on its usage. Usage trend dropped especially during periods when school fees fall due in January – February and festive event months. It is also evident that during cruise-ship days, spending increases as cruise-ship visitors buy sim cards. In terms of

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investment, TVL have upgraded its investment over the last 2 years. The amount of investment over the 2 years span is more than the level of investment over the five years.

Business operation - In 2018-2019, TVL's transportation of towers in the islands is expensive, but the company has been working on this progress, step-by-step. The company has also faced a lot of land disputes issues that bring a lot of problems during the set up and building of towers in the outer islands. This has become a more frequent issue and land disputes has stopped development in targeted areas.

TVL has a total of 98 towers. It is also building a few more on Malekula. Efate is mostly covered while a few places on Santo is still progressing. The recent evacuation of Ambae people from Ambae due to the volcanic eruption on the island, saw all 4 towers on the islands shut-down and only one is active for transmission. TVL aims to remove 2 towers there and move them to other islands.

The number of towers is expected to increase – but not happening yet; old towers need to shut down first. The reason behind this is the cost of building the tower is greater than the return. The high cost is driven by: 1) the high cost of technical service and the local domestic flight, 2) the high cost of logistics when accounting for accommodation and per Diem costs. With the rising cost of establishing those towers which is entirely due to the geographical location of the islands, TVL has been working with landowners to use them as care-takers of the towers and, and providing payment for their service.

Despite the submarine cable is cheaper, the price for Vanuatu will be higher compared to Sydney, and Suva. A reason could be the number of people in Vanuatu is small, so the cost increase. When package is high, the cost is also high in Vanuatu. Satellite is more expensive.

TVL's latest product mobile-money is a pilot which on the spot, allows subscribers and shops to make payments. It will cost a small fee but it will benefit the remote interior areas of the outer islands. Operations in 2018 includes work on strengthening the core

system – database and security installation. A lot of customers are now using 4 G which has more benefits but the cost is expensive. TVL has also issued its new phone Directory with TVL numbers.

In terms of employees, TVL has added more employees with the majority locals and few expats (part of ADH) and provided internal training. TVL's operations includes 1) Land line (85% of market share); this covers small households, government and major business corporates. 2) Internet, TVL carries 65% market share as they deployed Fibre before Digicel Ltd, and 3) mobile, TVL carries 45% of share which is inclusive of outer island coverage.

Outlook for growth in 2018 - In general, the business performance is quite steady. There is the view that there needs to be more enforcement in the economy to make sure businesses pay their debts and not allowed to transfer money overseas. There should be strong restriction of ensuring that these businesses complete their business loans from banks before leaving the country.

Forward looking

Looking forward, in 2019, the company is expected to increase investment as part of building the connectivity and infrastructure in telecommunication.

Economy-wise, there need to be more local businesses concentrating on increasing local products. There is big potential for producing local produced products rather than depending on imports; money should stay and circulate in the country. The increasing projects through loans from China is not good for the economy. There needs to be a regulation putting strong restriction on businesses from sending money outside the country, if they have loans domestically.

The government should consider accepting grants/aids for hotels, etc. that will generate money rather than project grants for projects such as stadiums and other projects that has no revenue-earning component but add to the external debt of the government.

The USD fluctuation will affect business operation increasing the cost of imports.

Energy (Fuel Supply)

Energy (Fuel retail) Performance in 2018 - Pacific Energy has focused in 2017 on creating new supply chain in the outer islands – Malekula, Tanna – towards 2017 making it affordable with coverage of more than 40 percent. The distribution of quality fuel brought support for small service station where risk of hazard and pollution is limited. In 2018, Pacific Energy has worked on installing a service station in Pentecost and is optimistic that it should be ready before the end of 2018.

The latest development in networks of international flights in Tanna brought more tourists, there remains a challenge of storage facility, however, there is also the need to develop the aviation sector. At the moment AVL in Tanna is managing themselves and capitalizing in progress. Continuous land disputes in Malekula makes it difficult for the location so currently there is no proper supply to Malekula and there is no AVL terminal yet. The investment for 2018-2019 has seen a huge amount of investment covering Tanna and Pentecost, with plans to increase investment in the outer islands in 2019. Pacific Energy has made huge and strong investment over the last 3 years indicating its strong commitment of providing service to the community.

The government need to promote more fishing, infrastructure and economic activity, which intend will facilitate good VAT collections. This also includes pushing up compliances and requirements for business license that will bring up standard of activities – so sufficient revenue can be collected per year per island. Following Pacific Energy's operations in the outer islands, the lower cost of fuel means people in the outer islands can have a reduction in their fuel spending and can spend more on education and welfare.

For Port Vila, Pacific Energy is gathering for the extension work at the airport. There will be more investment on the terminal at the airport, and using local contractors to work on these projects. The business spend more on maintenance – tanks and vehicles – using local subcontractors – which gives them opportunity to work on these projects.

Business operations – There is a steady increase in international fuel prices and expected higher prices in the future that will be passed on to customers. In addition, the impact of the appreciated (stronger) US Dollar, has impact a lot on imported fuel purchases. If the impact of increased fuel prices and appreciated US Dollar is considered, the 3-4 percent projected GDP growth by World Bank/IMF might need to be reviewed downwards. OPEC price have increased, so there is certainty of higher price for fuel into the future. With the increase in demand in the world market, price will increase in the world economy.

For Vanuatu, the fuel price is low – recent increase has no effect or taxi fares have increased due readjustment of consumption. Inflation is stronger in Efate with the increase in VAT, minimum wage increase; with these developments in 2018, employee contracts have been reviewed. The increased costs makes the local currency weaker as inflation has increased.

The operation for 2018 includes recruitment of one person per year (on temporary contract). The business is concentrating on building operational capacity in Port Vila to 90 percent and providing support for local operators in Tanna, Malekula and rural areas. The business has been focusing on providing a service and taking on the cost of investment, and as a result, fuel prices are quite stable in the outer islands, however this may change in the future due to increasing costs and other constraining issues.

Outlook for growth in 2018 - Business outlook, in general, is quiet for 2018. At this stage, businesses in general are still yet to see the benefit of infrastructure work completed – from then, the economy can grow. 2018 is a transition year, economy will re-start in 2019. There is hope that the following activities driving growth will pick up again and there should be incentives and support for them to do so: industrial – more projects and tourism pickup and it is expected that by 2028, the aviation sector will recover its investment made to the airport. In May 2019, Air Vanuatu is expected to buy a new plane, even though an ATR72 aircraft is down, which may support tourism arrivals.

Businesses in the economy are currently investing on building their capacity, so currently activities is slow. Some projects have been post-pone, such as the inter-island shipping. There have been little growth in the aviation market – particularly air Vanuatu could experience growth to the end of the year. The current slowdown in 2018 would need restart otherwise it will be difficult for businesses in general.

Forward looking

2019 plans includes the set-up of a new service station on Ambrym. Currently the extension of services for Malekula and Tanna will include increase coverage of remote rural areas.

Uncertainty surrounding the implementation of the income tax, the growth of the economy and inflations are issues that continue to affect business future plans of investment. The commercial and industrial companies are seeing a slower year in 2018 compared to 2017, growth is only driven by projects but activities in the economy is slow. In 2019, after the completion of the airport, the aviation sector will take time to build capacity first before businesses plan investment will start to pick up. It is likely it will take 3 years ahead before the country will start to see real growth and development.

Airline Industry

Airline performance in 2018 – the year, 2018 is a good air for air transport, better than 2017. For airline businesses such as Air Calin, the office in Noumea has planned for extra flight in 2019 beginning January – increasing to 3 flights per week to cover for the school holiday. The impact of the more frequent flights has seen more tourists in Port Vila. Air visitor travelers on Air Calin travel from Europe and France while 80 percent are mostly New Caledonia.

For the operations, there have not been any changes in employment. Overhead costs includes high telecom costs although electricity costs have stabilized.

Forward looking

The next 6 months and outlook looks good with airline forward bookings increasing.

Beef Industry

Beef industry in 2018 - Beef production has declined in 2018. The cattle for local and export market has declined tremendously. The abattoir concentrate more on selling to the local butchers in the year. So far in 2018, VAL Pacific has exported only 3 containers to overseas market (Solomon Is and Papua New Guinea), a drop from the previous year.

The main issue surrounding the cattle/beef industry is the shortage of supply and farmers are not supplying enough on Efate Island despite shipment from Santo. The shortage of cattle supply will be a long-term issue for Vanuatu and there is a need for the government to ramp up supply of cattle in the islands and Efate.

Prices have increased in 2018 due to VAT, prices were lifted about 19 months ago. The abattoir has weekly supply to resorts but not enough to supply the strong increasing demand from the local market. The main client base of the business is mainly resorts, super-market and exports. In terms of employment, the number of workers have dropped, but not yet replaced. The Abattoir has reduced the number of workers, all a result in the slowdown in business.

Forward looking

There is a need for more work to be done in helping farmers to re-stock the cattle farms. The government is embarking on cattle re-stocking projects in the outer islands but it will take some time (2-3 years ahead) for supply and beef industry to pick up again.

New land law act that will put restrictions on turning rural agricultural lease into a residential lease will help support the cattle development projects into the future.

IV. SECTOR DEVELOPMENT – SANTO

Introduction

Santo is the largest island in Vanuatu with a population of more than 40,000. Luganville, which is the second biggest town in Vanuatu is located on Santo. It is where most business activities in the northern part of the country are concentrated. Luganville has a population of around 13,156,

accounting for 23 percent of urban total population of 57,195 according to the 2009 Population Census. The rural population from not only Santo, also but Penama Province and Malampa Province, come to Santo (mainly Luganville) to sell Copra, Cocoa and Kava and to do shopping (wholesale and retail shoppers) in Luganville.

Luganville has the main export port of Vanuatu because the northern part of Vanuatu is endowed with agriculture production, mainly Kava, Copra and Cocoa productions. Exports from Luganville usually accounts for more than 60 percent of total annual exports. In 2017, in terms of value, it accounted for 70.2 percent of total Vanuatu exports.

In terms of tourism, Luganville visitor arrivals on air usually accounts for more than 3 percent of total visitors arrivals into Vanuatu. In 2017, total air visitors to Luganville accounted for 5.2 percent of total air arrivals into the country. Additional to that many tourists transit from Port Vila international airport and travel up to Luganville for holiday and other purposes. Moreover, day visitors to Luganville and Champaign Beach in Santo received on average 2 cruise ships each month.

The businesses and the authorities visited were Acting Secretary General, Sanma Tourism Office, Beach Front, VCCE, John Fordam (Kava Factory), Vanuatu Hardware (Simeon Aru), Hotel Santo, ANZ, BRED, VCMB, LSC (Ambae Supplier), Melcoffee Sawmill, COPSL (Factory and Shipping), WSS (Factory, Abattoir, Hotel, Real-estate, farming, hardware and retail) and NDMO.

Agriculture Sector

The overall business sentiment confirmed by Agriculture Department in Luganville, commodity regulators and the copra, cocoa and Kava buyers in Luganville points to a fairly stable growth in agriculture production in the northern region. The stable growth is the result of a mix growth in sub-sectors of the agriculture industry.

Copra production according to copra buyers have dropped significantly in the northern part of Vanuatu. This is attributed mainly to the drop in copra price in

the world market. Copra price in the domestic market, as a result of that, have dropped to as low as VT25,000 per ton in Luganville. This means that the beach price for Penama (Ambae, Pentecost, Maewo) and Malampa (Malekula, Ambrym, Paama) must be lower. Reports confirmed that in some of those outer islands, price went as low as VT15,000 per ton. This is discouraging to copra farmers hence the reported drop in copra production. It is also reported that one other major contribution to the drop in copra production this year is due to the Volcanic Eruption on Ambae, which caused widespread devastation and total evacuation of the islands. Reports from commodity regulators office confirms that, in volume, usually Ambae produces 5.0 percent of total annual copra production in Vanuatu. This 5.0 percent of copra production will be lost due to the volcanic disaster on that island.

Likewise, cocoa production has also seen slight decrease in production in Luganville. The drop is largely due to the Ambae Volcanic disaster and the cyclones that stroke the northern region of Vanuatu early this year. Another major reason for the decline is the unstable price on the world market. World price for cocoa currently remained high but lower than levels seen in the previous months and years. It is currently on a declining trend.

Kava production in Santo as confirmed by Agriculture Department in Santo as well as kava buyers and kava exporters, has been increasing over the year. This they said would be the offset of the fall in copra and cocoa industry. Kava production has dramatically increased. However, most of the production is consumed domestically while only a small portion is being exported. Kava exporters has confirmed this but are optimistic about the future as they are seeing an increasing trend in kava planting. They said the next 4 to 5 years' time, there will be a good supply of Kava from Santo. In the meantime, their export of Kava keeps increasing in line with the local production.

Forestry and fishing industry in Santo will remain stable for 2018 compared to 2017. Reports from saw millers and timber shops confirmed this trend during the survey and remain optimistic about 2019 for this industry. There are some tentative reports of joint venturing with local and foreign companies that will

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see a boom in the industry but it is yet too early to confirm.

Similarly, the animal production industry in Santo has been confirmed to have slightly dropped in 2018 compared to 2017. The survey team has visited major cattle farms as well as the abattoirs in Luganville and confirmed that most cattle slaughter are consumed locally. The abattoir firms were saying that cattle is becoming more and more difficult to find and that source from local farmers is collapsing. The feeling is that they are currently farming and in the years to come there will be a rebound in cattle production.

Agriculture Sector/Fisheries

Cash crop/Livestock/Fish	Sentiments	Remarks
Copra	Negative	Low price,
Cocoa	Positive	Association Active
Kava	Positive	Association Active
Peanuts	Positive	Supply to Port Vila market
Fresh Fish	Positive	Luganville Fish market was opened

Industry Sector

Overall, the industry sector in Santo, according to reports during the survey, confirmed a stable growth in 2018.

The survey team consulted hardware shops as well as constructions companies and visited some major construction sites. The feeling is that construction is stable in Luganville mainly attributing to private constructions and private investments while public infrastructure projects slows down. Sanma provincial government also confirmed the story with mention of few major hotels been constructed in 2018 in the Sanma province.

Moreover, the manufacturing sector in Luganville has indicated a slowing down in production. This is confirmed by the Santo Oil Mill Production which is the only oil producing company in Vanuatu that export coconut oil. They have confirmed a reduction in coconut

oil production and have attributed it to a slowdown in copra production due to the current low price of copra.

Industry Sector

Product	Sentiments	Remarks
Coconut Oil	Negative	Low price, COPSL Coconut Oil Factory running down

Services Sector

The services sector in Luganville remain somewhat stable in 2018 compared to 2017. This sentiment is common in almost all sub-sectors of the Service Sector.

Reports from tourism vendors confirmed to a slight increase in tourism activities on Santo. This is in line with the introduction of new direct flights from Australia to Luganville this year. Hotels have indicated that 2018 should be a bit a better year for tourism industry in Luganville.

On the other hand, day visitors to Luganville have been very weak in 2018. The expectation as confirmed through survey in Santo is for a total of 12 visits in 2018 but so far only 3 ships have arrived in the period of January to October 2018. The Authorities stated that this is discouraging as cruise visitors play a very important role because they spent direct to the hands of locals. The authorities have confirmed the launching of some new day products in Luganville and are appealing to the government and stake holders to make effort for more ships to visit Santo in the coming years.

The sentiment for the transport services sector in Luganville is stable. There is an offset as shipping services seems to be affected while land transport is performing on a positive note. The shipping service industry in the north is affected due to weather conditions, Ambae volcano disaster, and the current low price of Copra. The normal service to Ambae is now fully stopped and that is loss of business for them. But on the other hand, land transport is seemingly performing exceptionally well. Despite the fall in copra price, reports confirmed that the relocation of more than 6000 people from Ambae to Santo have some positive impact on land transport in Luganville.

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Retail trade and whole sale trade in Luganville has reported a slight improvement in business compared to 2017. This they said is due in part to the good performance in the kava industry, the RSE workers programs as well as the Ambae disaster. The relocation of the people of Ambae to Santo has a positive impact on major whole sale and retail stores in Luganville. Major shops consulted reported an increase in sales as well as an expectation of some profit higher than what they made last year.

Financial services and every other sub-sector of the Services sector in Luganville seemed to remain fairly stable compared to 2017. The financial services providers seem to be on a positive note when interviewed and reported some increases in the number of deposits, their loan portfolios as well as extended services through ATMs and other electronic products for customer services. The same can be said for real estate industry, government services as well as education, health and recreation.

Services Sector

Services	Sentiments	Remarks
Trade	Negative	Drop in copra and cocoa exports, no more cargoes supply to Ambae.
Tourism	positive	
Transport (shipping services, particularly)	Negative	Low copra price; COPSL got rid of two ships MV Havutu and MV Aurora
Financial Service	Positive	Slow improvement after AFIC has closed down. However, there are still some signs of loss of trust in Financial Services for most members of AFIC.

Prices

Prices	Sentiments	Remarks
Consumer prices	Negative	Increase in prices
Electricity price	Negative	Increase in electricity price from 36.29VT/kWh to 38.52kWh as recovery costs to 2016 loss
Copra prices	Negative	Prices have dropped even as far as 18VT/Kg
Cocoa prices	Negative	Prices increased from 119VT/kg in Q1 2017 to 192VT/kg in Q2 2018, however the harvest was low due to Hola's impact.

Operation Cost

According to the businesses, the operation costs has increased due to higher electricity rate. Costs have increased due reduction in the number of vessels for interisland shipping freight. For example, WSS uses its own generator to manufacture 200 litre fuel cylinder/drum, still the price of its poultry and beef cans are not competitive compare to Fiji and PNG corn-Beef. The minimum wage increase has contributed to the high production costs.

V. SECTOR DEVELOPMENT - MALEKULA

Malekula is the second biggest island in Vanuatu and a major producer of copra and cocoa, producing approximately 45 percent of annual national copra production and approximately 62 percent of national cocoa production. Malekula has a large kava production potential and is reportedly has a vast untapped area of production that is yet to be reached due to inaccessibility.

The businesses and the authorities visited were Acting Secretary General of Malampa, Malampa Tourism Office, LCC, Vanwoods, Vanuatu Cocoa Premium Ltd (VCPL), NBV branch

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Agriculture Sector

Overall, the agriculture sector in Malekula has significantly dropped in 2018 compared to 2017. This is confirmed during the sentiment survey in Malekula by almost all companies and firms that the survey team visited. The major contributing factor to the drop that was cited was the low copra price and the devastation caused by cyclone Pam in the year 2015 as well as recent Cyclone Hola during the start of 2018.

Even though copra buyers and copra exporters in Malekula reported some activity, the level was lower compared to last year and the year before. The current activity is because of improved coverage in which companies continue to provide transport to farmer's doorstep to purchase their copra produce.

Similarly, sentiment expressed by cocoa farmers, and cocoa buyers' points to a significant slowdown in production. Like in the copra industry, cocoa is affected by cyclone Pam in 2015 and then again in early 2018 when Cyclone Hola strikes Vanuatu and hit mainly Malekula. The Malekula economy suffered the worse reduction in Copra and Cocoa industry in its history. One of the biggest cocoa plantation in not only Malekula but Vanuatu confirmed around 70 percent of its total production was affected by Cyclone Hola.

Agriculture Sector/Fisheries

Cash crop/Lives stock/Fish	Sentiments	Remarks
Copra	Negative	Low price, and damage of trees
Cocoa	Negative	Damage of trees in Metenesel plantations by TC Hola
Kava	Positive	With low copra price and poor cocoa harvest, people are switching to Kava, which has increasing price.
Fresh fruits, vegetable	Positive	Production is recovering gradually, but without the farmers' normal

s and root crops		earning from copra and cocoa proceeds, purchase is limited to the few salary workers.
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Kava production in Malekula is somewhat positive but on a slower pace. This was the sentiment expressed and the outlook is for supply to increase in the next few years. A concern is that farmers are now planting so much kava that are not concentrating on food crops.

Forestry and Fishing activities on the other hand seem to remain calm and stable in 2018 compared to 2017. Logging activities in Malekula still produces fairly stable and the dishing industry remains. A concern shared during the survey is that farmers and fishermen tend to be more into the RSE work than making a living through resources they have at home.

Industry Sector

The industry sector in Malekula has improved compared to last year. This is the sentiment collected from public works department, manufacturing industry as well as hardware shops in Malekula.

Construction has boomed in 2018 compared to 2017 and that is heavily due to the continuation of the CCECC road construction on Malekula Island. The 15 kilometers of tar sealed road was completed in 2018. Two other factor would be the continuation of the Road for Development (R4D) that is still going on around Malekula, Ambrym and Paama as well as new road construction that is trying to connect to South West Malekula.

Reports collected from hardware shops in Malekula also confirmed an increase in construction activity on the islands. Sales have significantly increase and is attributed to public road construction as well as private home construction. It was mentioned that the RSE Scheme has positive spilt-over effect on constructions in Malekula. Hard ware shops are expecting some profits higher compared to last year. There are more than two hardware shops in Malekula.

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Industry Sector

Product	Sentiments	Remarks
Manufacturing of timber	Positive	Timber yard to be established
Processing of cocoa bean	Positive	This is a premium product, for the processing of chocolate blocks in Luganville
Construction: infrastructure	Positive	Tar sealing of the road from Norsup Hospital to lits-lits

Services Sector

The services sector of the Malekula economic has been confirmed to be stable so far in 2018, with prospect of a slight increase, when compared to 2017.

According to the Tourism Department in Malekula, 2018 should be a better year than 2017 for the tourism industry. It was confirmed that tourists mostly travels in groups of more than 10 people to Malekula and stays for more than 10 nights in Malekula. They are mostly long-hauls tourists who visited Malekula for a custom experience as well as the Ambrym Volcano. It was noted that a slight increase in the number of tourism products have been noted for Malekula and Malampa province. However, the challenge is the flight seats available to Malampa as well as the continuous cancelation of flight schedules by Air Vanuatu. The Malampa Provincial Government is working to improve the airport runway to gather for ATR flights and build a new Airport Terminal to address the issue.

Retail and Wholesale Trade in Malekula has seen an improvement compared to last year. Reports confirmed that even though cocoa and copra production is affected by cyclone, people are moving to other source of revenue like Kava and the Regional Seasonal Employment scheme (RSE). Retail and Wholesale shops in Malekula have confirmed sales in 2018 should be higher than 2017 and that profit will be higher. This is in line with higher sales recorded so far and a general view that operation costs have been stable over the year.

Finance and insurance services sector of the Malekula economy is somewhat stable compared to last year but with signs that a slight improvement will be noted by the end of the year. This sentiment is expressed by Banks and Financial service providers in Malekula. They share a view that public trust in Malekula may have been affected by a Saving and Loan Society (SLS) which has recently been run-down due to management problem. The SLS has been actively operating previously as a commercial bank in Malekula.

Public administration services, Real Estate Services, transport services, telecommunication services and other services in seemed to have been stable in 2018 compared to 2017. Consultation with transport provides and other entity in those respective sectors have all confirmed to this trend.

Service Sector

Services	Sentiments	Remarks
Trade	Negative	This is related to the fall in coconut industry, fall in price, and the fall in cocoa production. Non-SSP stations closed, few prominent wholesale and retail shops were running down.
Trading of fuel	Positive	Reduction of fuel prices to Port Vila fuel price level.
Tourism	Positive	Better than past years
Transport	No change	Low fuel price and tar seal road
Financial Service: Vanwoods and NBV branch	No change	However positive signs, after AFIC has closed down, still most AFIC members may have lost trust in Financial services.

Prices

The increase of prices are automatically transferred to customer as the proportion of the retailers' mark-up is kept constant.

VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

Services	Sentiments	Remarks
Consumer prices	Negative	This is related to the price fall in coconut industry, and the fall in cocoa production
Fuel	Positive	Reduction price to Port Vila price.
Copra prices	Negative	Copra price dropped to 18VT/Kg
Cocoa prices	Negative	Cocoa price dropped to from 147VT/kg to 127VT/kg

Operation Cost

The trend in operation costs is most likely to follow the trend for the shipping freight which have the tendency to be high, to compensate for loss in forgone freight from copra and cargoes freights due to lower volume of copra, cocoa and cargoes transshipped.

VI. SECTOR DEVELOPMENT – TANNA

Introduction

Tanna is the biggest island in Tafea province and has a population of more than 29,000 people, making it the most populated island in Tafea province.

It is one of the most attractive islands in Vanuatu given the active Yasur volcano, and the international airport in Tanna makes it one of the main tourist destinations in the country. It is also well-known for its unique Tanna Coffee that is 100 percent produced by local farmers. Tanna is also one of the main suppliers of root crop such as Yam, Taro, Sweet Potatoes and Kava.

Tanna Island hosts one of the major tourist attraction sites in Vanuatu, active Yasur Volcano. Situated in the south of Vanuatu, Tafea Province has a total population of approximately 32,540 people (2009 National Census), accounting for 14 percent of the total population. Tafea Province received approximately 7,628 visitors in 2016. Tanna Island received 6,963 visitors in 2016, a 26 percent increase over the 2015 year level.

Tanna's Whitegrass Airport will receive an upgrade after a contract award for Lot 2 of the Vanuatu Aviation Investment Project (VAIP) was signed on 22nd May 2017 between the Vanuatu Government and the China Civil Engineering Construction Company (CCECC) and its joint-venture company Northwest Civil Aviation Airport Construction Company (NCAACC) China. This Lot 2 award will increase the lifespan of the airport runway by 10 years. The contract (which includes the Pekoa Airport upgrade on Santo) valued at US\$11,390,000 (VT1.3 billion) was expected to be completed by 240 days. Apart from over 6,000 tourist visitors that visit Tanna Island, approximately 43,000 passengers utilize the Whitegrass Airport.

Among others, the survey team visited Tanna Provincial Government (Project Officer), Department of Cooperatives, Department of Forestry, Fishing & Livestock, Public Works Department, National Bank of Vanuatu, JK Naulas Store, Jen Store, Bill Yapsen Enterprise, Rocky Ridge Bungalows, Evergreen, Rock Water Resot and White Grass Resort.

Agriculture Sector

The Agriculture Sector of the Tanna economy has seen a slight increase in production compared to 2017. Reports confirmed that after the cyclone hit Tanna in 2015, restoration projects mainly targeting the agriculture sector has been effective and agriculture production has normalized. Prices of mainly vegetables, root crops such as Yams, Kumala, and Taro, at the local market is now back to normal, with seasonal high supplies that tend to reduce prices.

As it was reported in the 2015 Business Sentiment Survey Report, the Kava industry in Tanna will need more time before harvest is normal. After the 2015 cyclone, replanting of Kava plantations by farmers is done but the harvest is yet to be made. The kava industry in Tanna is still down, but slowly picking up.

Fishing and forestry on the island of Tanna and Tafea is generally down. Reports confirmed that these two industry seem to lack investments by local. The fish market however is however operating but is supplied with only canoe fishermen.

Industry Sector

The industry sector of the Tanna economy has dropped after the completion of the stage 1 of the Tanna Road Tar sealing by CCECC in 2017 but remained at elevated levels. Reports collected confirmed that constructions of mainly roads still continues for the R4D projects as well as cementing of roads and a new tar sealing is expected on the road to Yasur volcano. This means that quarrying and other activities that relates to road construction will continue to remain at same level over the years.

Services Sector

Tanna tourism industry, from the reports collected, is improving compared to 2016 and 2017. Hotels and resorts have pointed to a good year compared to 2017. General costs of doing business in Tanna have be stable and profits should be positive this year. The only concern is the intended increase to the entrance fee for the volcano and the high flight rates from Port Vila to Tanna operated by Air Vanuatu. Other than that, bookings are improving as well as occupancy and average length of stay.

Retail and wholesale trade have seen some improvements in sales and are pointing to a positive year compared to 2017. This they said is in line with the performance of the agriculture sector as well as the industry sector mainly construction activities in Tanna.

This trend is further confirmed when the survey team visited banks and other financial service providers. BSP bank has established itself on Tanna Island which makes a total of two commercial banks in Tanna. Banks reported an increase in their daily holdings (more than doubled) as a result of increased business activity on Tanna. Banks confirmed that business activity on Tanna has normalized and that targets (lending, deposits etc.) are expected to be surpassed.

VII. SECTOR DEVELOPMENT – EPI

The businesses and the authorities visited were Epi Agriculture field assistant, the Epi Area Administrator, one chief and RSE worker, one RSE Senior Manager, one bungalow owner, one boat operator (Fishing and transportation), retail shops, and the Epi Oil Mill.

Agriculture Sector

The general sentiment in agriculture sector was positive, due to the activation of the several farmers associations, such as kava, coffee, cocoa and onion associations. In the area of fisheries, there has also been an establishment of fishermen association. Though copra industry on the island, has suffered since the closure of the coconut oil factory, there has been some development in the manufacturing industry that will be driver for future growth in copra industry.

Cash crop/Lives tock/Fish	Sentiments	Remarks
Copra	Negative	Low price, closing of Coconut Oil Factory. However, certification process of plantations in progress for production Organic Coconut Oil for Exports
Cocoa	Positive	Association active, but prices dropped from 190 to 130VT/kg
Kava	Positive	Association active
Coffee	Positive	Association sells to Tanna Coffee
Peanuts	Positive	Supply to Port Vila market
Potatoes	Positive	Started
Onion	Positive	Started
Cattle	Positive	Regular supply of live cattle to Vanuatu Abattoir
Fresh Fish	Positive	Sold to local and Bungalows, Fishermen association and supply booths are established

VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

Industry Sector

Product	Sentiments	Remarks
Coconut Oil	Negative	Low price, Closing of Coconut Oil Factory

The certification of organic coconut plantations has started on Epi and awareness has expanded onto the island of Ambrym. The main objective of this project was to secure the supply for certified organic premium coconut oil. This will be a premium product for niche export market, as opposed to the traditional crude coconut oil. This project was a private sector led initiative.

The activities transportation and retail trade industries have been affected by the slowdown in copra industry.

There was mix sentiments, loss of trust in financial services after the closure of APMA Financial Investment Centre (AFIC). However the financial sector has slowly improved, as the only traditional financial service provider, the National Bank of Vanuatu, began to experience crowds again at its premises.

Services Sector

Services	Sentiments	Remarks
Trade	No change	
Tourism	No change	Cruise ship call to Laman Bay on the day of visit was cancelled
Transport	Negative	Low copra price
Financial Service	Positive	Slow improvement after AFIC was closed down, still some signs of loss of trust in Financial Services for most members of AFIC.

The general sentiment for the respondents in relation to services sector development was rather stable. There has not been any improvement in the tourism, transport and retail industries.

There has been a cruise ship call arranged for Lamanu Island on the day of business visit. Government officials and tourism authorities have flown in to officiate a welcome ceremony for the cruise ship and its passengers on the Lamanu Island, but then due to unforeseen circumstances the cruise ship had to cancel a historical event.

VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

VIII. APPENDICES

APPENDIX 1: COPRA PRODUCTION

Copra Production by Province and Island in 2016, 2017 and 2018 (Jan-Sep), in tonne

Province	Island	2016	2017	2018 (January to September)
Malampa	Ambrym	1,795	2,518	1,303
	Malekula	11,239	8,114	4,752
	Atchin	9	46	3
	Tomman	25	1	14
Sub-Total		13,068	10,679	6,072
Penama	Ambae	1,628	1,464	495
	Maewo	367	558	176
	Petecost	107	150	20
Sub-Total		2,102	2,172	691
Sanma	Malo	2,826	1,834	2,225
	Santo	13,714	13,744	9,206
Sub-Total		16,540	15,578	11,432
Shefa	Epi	1	356	172
Sub-Total		1	356	172
Torba	Vanualava	2,509	2,243	1,038
	Gaua	2	440	191
	Motalava	15	46	6
Sub-Total		2,525	2,735	1,229
Grand Total				
Volume (in tonne)		34,236	31,520	19,596
Value (in million VT)		1,842	1,915	669
Average Price (in VT/Tonne)		53,799.05	60,739.57	34,128.78

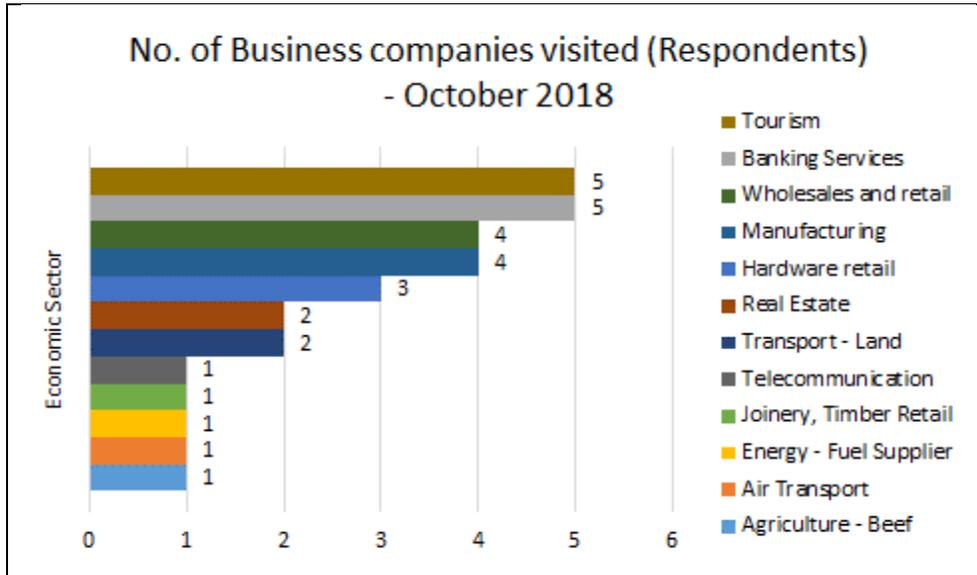
VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

APPENDIX 2: COCOA PRODUCTION

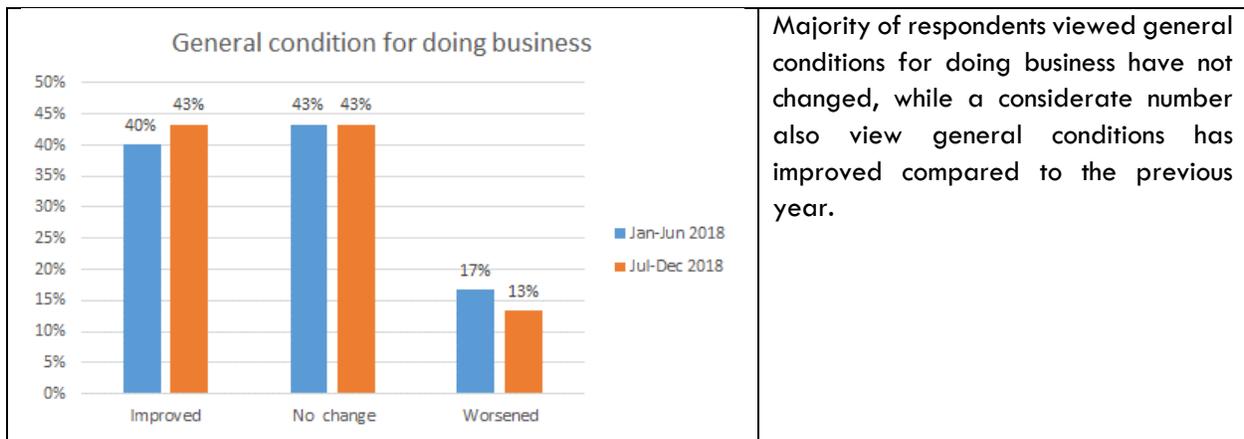
Cocoa Production by Province and Island in 2016, 2017 and 2018 (Jan-Sep), in tonne

Province	Island	2016	2017	2018 (January to September)
Malampa	Ambrym	1	1	1
	Malekula	442	651	556
	Atchin	511	-	2
	Tomman	0	0	37
	Total	954	651	596
Penama	Ambae	49	58	6
	Maewo	4	3	2
	Petecost	0	0	0
	Total	53	61	7
Sanma	Malo	29	53	35
	Santo	266	134	309
	Total	295	187	344
Shefa	Epi	7	13	16
	Total	7	13	16
Torba	Vanualava	0	0	-
	Gaua	-	-	-
	Motalava	-	-	-
		-	-	-
	Total	0	0	-
Grand Total		-	-	-
Volume (in tonne)		1,308	913	964
Value (in Million Vatu)		141,562	111,768	157,204
Average Price (in VT/Tonne)		108,187.38	122,389	163,073

APPENDIX 3: COMPILED BES RESULTS FOR PORT VILA



Overall business sentiment – Port Vila



VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

<p style="text-align: center;">Inflation or rate of change in consumer price</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>No change</td> <td>30%</td> <td>27%</td> </tr> <tr> <td>Worsened</td> <td>70%</td> <td>73%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	0%	No change	30%	27%	Worsened	70%	73%	<p>The majority of respondents view that inflation or rate of change in consumer price index has worsened (or increased)</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	0%											
No change	30%	27%											
Worsened	70%	73%											
<p style="text-align: center;">Domestic employment</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>33%</td> <td>30%</td> </tr> <tr> <td>No change</td> <td>63%</td> <td>63%</td> </tr> <tr> <td>Worsened</td> <td>3%</td> <td>7%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	33%	30%	No change	63%	63%	Worsened	3%	7%	<p>The majority of respondents viewed that domestic employment has not changed compared to the previous year. While a little considerate number viewed that domestic employment has improved.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	33%	30%											
No change	63%	63%											
Worsened	3%	7%											
<p style="text-align: center;">Interest rates</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>7%</td> <td>3%</td> </tr> <tr> <td>No change</td> <td>93%</td> <td>97%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	7%	3%	No change	93%	97%	Worsened	0%	0%	<p>The majority of respondents viewed that interest rates have not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	7%	3%											
No change	93%	97%											
Worsened	0%	0%											
<p style="text-align: center;">Average price paid</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>No change</td> <td>32%</td> <td>28%</td> </tr> <tr> <td>Worsened</td> <td>68%</td> <td>72%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	0%	No change	32%	28%	Worsened	68%	72%	<p>The majority of respondents viewed that average price paid has worsened (or increased). A little considerate number viewed that it has not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	0%											
No change	32%	28%											
Worsened	68%	72%											

VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

<p style="text-align: center;">Total payment for wages and other operating costs</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>No change</td> <td>37%</td> <td>33%</td> </tr> <tr> <td>Worsened</td> <td>63%</td> <td>67%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	0%	No change	37%	33%	Worsened	63%	67%	<p>The majority of respondents viewed that total payment for wages and other operating costs have worsened (increased) compared to the same period of last year. A little considerate number viewed that it has not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	0%											
No change	37%	33%											
Worsened	63%	67%											
<p style="text-align: center;">Prices receive for goods and services</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>4%</td> <td>4%</td> </tr> <tr> <td>No change</td> <td>46%</td> <td>44%</td> </tr> <tr> <td>Worsened</td> <td>50%</td> <td>52%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	4%	4%	No change	46%	44%	Worsened	50%	52%	<p>The majority of the respondents viewed that prices received for goods and services have worsened (increased). A little considerate number viewed that it has not changed from the previous year</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	4%	4%											
No change	46%	44%											
Worsened	50%	52%											
<p style="text-align: center;">Operating Profit</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>40%</td> <td>47%</td> </tr> <tr> <td>No change</td> <td>50%</td> <td>40%</td> </tr> <tr> <td>Worsened</td> <td>10%</td> <td>13%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	40%	47%	No change	50%	40%	Worsened	10%	13%	<p>The majority of the respondents viewed that operating profit has improved (particularly in the second half of the year). Similarly most respondents also view that there has not been any change, particularly in the first half of the year, when compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	40%	47%											
No change	50%	40%											
Worsened	10%	13%											
<p style="text-align: center;">Investments in premises, equipments and fixed assets</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>40%</td> <td>40%</td> </tr> <tr> <td>No change</td> <td>60%</td> <td>60%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	40%	40%	No change	60%	60%	Worsened	0%	0%	<p>The majority of the respondents viewed that investments in premises, equipment and fixed assets has not changed compared to the previous year. A few has indicated that it has improved.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	40%	40%											
No change	60%	60%											
Worsened	0%	0%											

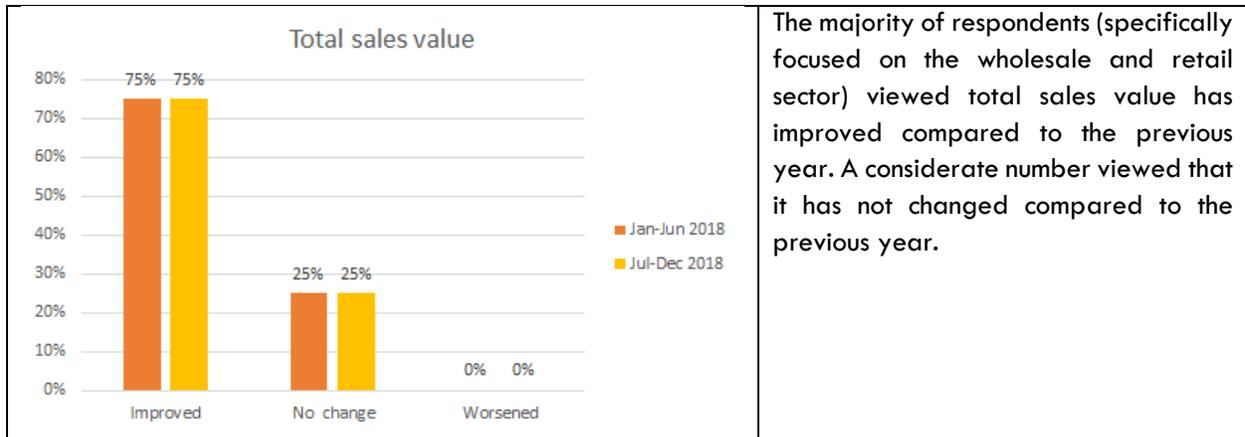
VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

<p style="text-align: center;">Total employment</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>43%</td> <td>40%</td> </tr> <tr> <td>No change</td> <td>50%</td> <td>53%</td> </tr> <tr> <td>Worsened</td> <td>7%</td> <td>7%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	43%	40%	No change	50%	53%	Worsened	7%	7%	<p>The majority of respondents viewed total employment to have not changed compared to the previous year. A considerable number also indicate that total employment has improved (increased).</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	43%	40%											
No change	50%	53%											
Worsened	7%	7%											
<p style="text-align: center;">Average weekly hours worked per employee</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>10%</td> <td>7%</td> </tr> <tr> <td>No change</td> <td>87%</td> <td>90%</td> </tr> <tr> <td>Worsened</td> <td>3%</td> <td>3%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	10%	7%	No change	87%	90%	Worsened	3%	3%	<p>The majority of respondents viewed that average weekly hours worked per employees has not changed compared to the previous year. Very little indicated that it has improved (increased) or worsened (reduced)</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	10%	7%											
No change	87%	90%											
Worsened	3%	3%											
<p style="text-align: center;">Debts owed to banks and creditors</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>4%</td> </tr> <tr> <td>No change</td> <td>100%</td> <td>96%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	4%	No change	100%	96%	Worsened	0%	0%	<p>The majority of respondents viewed debts owed to banks and creditors has not changed compared to the previous year. Few indicated that it has worsened (increased) in the second half of the year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	4%											
No change	100%	96%											
Worsened	0%	0%											
<p style="text-align: center;">Volume of Imports</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>56%</td> <td>56%</td> </tr> <tr> <td>No change</td> <td>39%</td> <td>39%</td> </tr> <tr> <td>Worsened</td> <td>6%</td> <td>6%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	56%	56%	No change	39%	39%	Worsened	6%	6%	<p>The majority of the respondents viewed that the volume of imports has improved (increased) compared to the previous year. A considerable number also viewed that it has not changed over the year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	56%	56%											
No change	39%	39%											
Worsened	6%	6%											

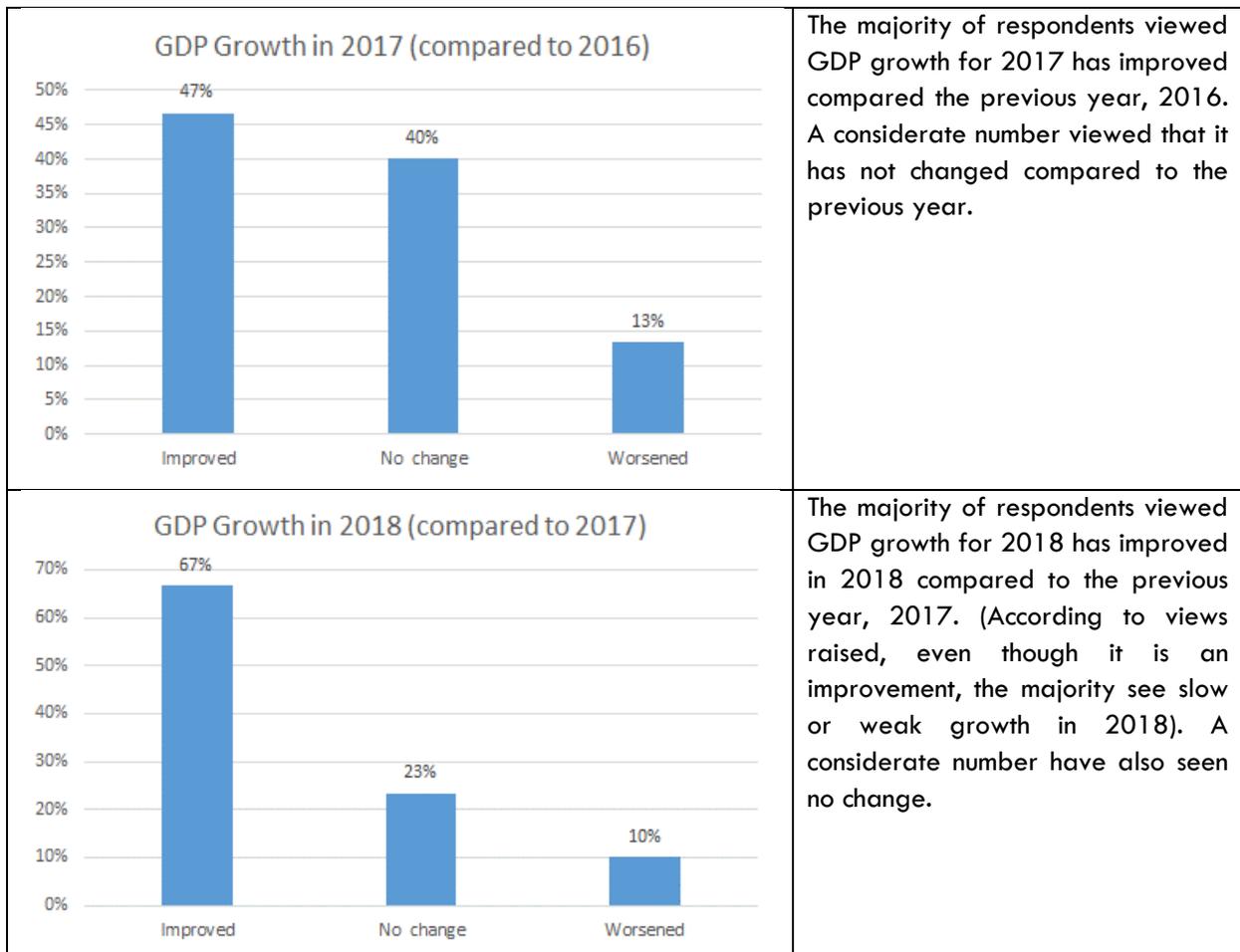
VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

<p style="text-align: center;">Capacity Utilization</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>33%</td> <td>33%</td> </tr> <tr> <td>No change</td> <td>54%</td> <td>54%</td> </tr> <tr> <td>Worsened</td> <td>13%</td> <td>13%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	33%	33%	No change	54%	54%	Worsened	13%	13%	<p>The majority of respondents viewed that the capacity utilization has not changed compared to the previous year, a considerable number also indicate that it has improved (increased) and others worsened (reduced).</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	33%	33%											
No change	54%	54%											
Worsened	13%	13%											
<p style="text-align: center;">Inventory level</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>45%</td> <td>52%</td> </tr> <tr> <td>No change</td> <td>40%</td> <td>38%</td> </tr> <tr> <td>Worsened</td> <td>15%</td> <td>10%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	45%	52%	No change	40%	38%	Worsened	15%	10%	<p>The majority of respondents viewed that inventory level has improved compared to the previous year. A considerable number also viewed that it has not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	45%	52%											
No change	40%	38%											
Worsened	15%	10%											
<p style="text-align: center;">Total sales volume</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>60%</td> <td>70%</td> </tr> <tr> <td>No change</td> <td>25%</td> <td>15%</td> </tr> <tr> <td>Worsened</td> <td>15%</td> <td>15%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	60%	70%	No change	25%	15%	Worsened	15%	15%	<p>The majority of respondents viewed that total sales volume has improved (increased) compared to the previous year. A considerable number also viewed that it has not changed and worsened (reduced).</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	60%	70%											
No change	25%	15%											
Worsened	15%	15%											

VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS



Outlook on Growth for 2018 and 2017



VANUATU MACROECONOMIC DEVELOPMENTS AND PROSPECTS

APPENDIX 4: COMPILED BES RESULTS FOR PORT VILA – CLASSIFIED BY SECTOR (SECTOR WITH SPECIFIC QUESTIONS RELATING TO THEIR TYPE OF BUSINESS)

Tourism

<p style="text-align: center;">Average nightly room rate</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>No change</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	0%	No change	100%	100%	Worsened	0%	0%	<p>The majority of respondents viewed that the average nightly room rate has not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	0%											
No change	100%	100%											
Worsened	0%	0%											
<p style="text-align: center;">Average price for food and beverage services</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>20%</td> <td>20%</td> </tr> <tr> <td>No change</td> <td>20%</td> <td>40%</td> </tr> <tr> <td>Worsened</td> <td>60%</td> <td>40%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	20%	20%	No change	20%	40%	Worsened	60%	40%	<p>The majority of respondents viewed the average price of food and beverage services has worsened (increased) in particularly the first half of 2018. A considerate number viewed prices have not changed in particularly the second half of 2018. Few viewed that prices have improved (reduced).</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	20%	20%											
No change	20%	40%											
Worsened	60%	40%											
<p style="text-align: center;">Total rooms available for sale</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>No change</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	0%	No change	100%	100%	Worsened	0%	0%	<p>The majority of respondents viewed that total rooms available for sale has not changed compared to the previous year.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	0%											
No change	100%	100%											
Worsened	0%	0%											

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<p style="text-align: center;">Total occupied room nights (sales)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>20%</td> <td>60%</td> </tr> <tr> <td>No change</td> <td>60%</td> <td>40%</td> </tr> <tr> <td>Worsened</td> <td>20%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	20%	60%	No change	60%	40%	Worsened	20%	0%	<p>The majority of respondents viewed that total occupied rooms nights (sales) have not changed in particularly the first half of 2018 compared to the previous year. Also a considerable number of respondents also viewed that sales have increased in the second half of 2018 (could be related to the peak holiday season and the impact of the extra flight by air Vanuatu)</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	20%	60%											
No change	60%	40%											
Worsened	20%	0%											
<p style="text-align: center;">Foreign vacation travel</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>40%</td> <td>60%</td> </tr> <tr> <td>No change</td> <td>60%</td> <td>40%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	40%	60%	No change	60%	40%	Worsened	0%	0%	<p>The majority of the respondents viewed that foreign vacation travel have not changed compared to the previous year. Also a considerable number viewed that sales foreign vacation travel has improved in the second half of 2018 (due to similar reasons given above)</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	40%	60%											
No change	60%	40%											
Worsened	0%	0%											
<p style="text-align: center;">Total volume of food and beverage services</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Jan-Jun 2018</th> <th>Jul-Dec 2018</th> </tr> </thead> <tbody> <tr> <td>Improved</td> <td>0%</td> <td>20%</td> </tr> <tr> <td>No change</td> <td>100%</td> <td>80%</td> </tr> <tr> <td>Worsened</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table>	Category	Jan-Jun 2018	Jul-Dec 2018	Improved	0%	20%	No change	100%	80%	Worsened	0%	0%	<p>The majority of respondents viewed the total volume of food and beverage services have not changed compared to the previous year. A few viewed the volume has increased in the second half of 2018 compared to the same period of 2017.</p>
Category	Jan-Jun 2018	Jul-Dec 2018											
Improved	0%	20%											
No change	100%	80%											
Worsened	0%	0%											