Monitoring of Graduating Countries from the Least Developed Country Category:

Vanuatu[1]

Committee for Development Policy
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I. Background

Equatorial Guinea and Vanuatu are earmarked for graduation, following the recommendations by the CDP which were endorsed by ECOSOC in 2009 and 2012, respectively, and taken note of by the General Assembly in December 2013 (A/RES/68/18). General Assembly resolution A/67/221 invites the Governments of countries that are graduating from the LDC category to report annually to the CDP on the preparation of the transition strategy.

In this note, the Secretariat presents a brief monitoring to provide an update on current conditions of both countries, for CDP's deliberation as requested by ECOSOC in its resolution 2013/20. Governments will be invited to submit reports to CDP on the overview of the preparation of smooth transition strategy later in the year, following GA resolution 67/221. Table 1 presents the time line for monitoring reports on both countries.

1A massive cyclone hit Vanuatu on 13 and 14 Marc 2015. This present report was prepared in early March 2015 and does not reflect impacts of the cyclone on the country.

Table 1. Time line for monitoring reports: Equatorial Guinea and Vanuatu

Date	Equatorial Guinea	Vanuatu	Relevant GA resolution
December 2012	Current reporting system introduced	Current reporting system introduced	67/221 adopted
March 2014	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	E/RES/2013/20
December 2014	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2015	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	E/RES/2013/20
December 2015	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2016	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	E/RES/2013/20
December 2016	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2017	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	E/RES/2013/20
June 2017	*Equatorial Guinea graduates*		*68/18*
December 2017		*Vanuatu graduates*	*68/18*
December 2017	Country report to be submitted to CDP (as a graduated country, #1)	Country report to be submitted to CDP (as a graduating country)[A]	67/221
March 2018	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2018	Country report to be submitted to CDP (as a graduated country, #2)	Country report to be submitted to CDP (as a graduated country, #1)	67/221
March 2019	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2019	Country report to be submitted to CDP (as a graduated country, #3)	Country report to be submitted to CDP (as a graduated country, #2)	67/221
March 2020	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2020	Country report to be submitted to CDP	Country report to be submitted to CDP (as a graduated country, #3)	67/221
March 2021	Report to be submitted as a complement to triennial review to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2023	Country report to be submitted to CDP	Country report to be submitted to CDP	67/221
March 2024	Report to be submitted as a complement to triennial review to ECOSOC	Report to be submitted as a complement to triennial review to ECOSOC	67/221
December 2026		Country report to be submitted to CDP	67/221
December 2027		Report to be submitted as a complement to triennial review to ECOSOC	67/221

Source: CDP Secretariat.

[A] Vanuatu reports as a graduating country, covering the year 2017 for most of which it is still a graduating country. See the case of Samoa (CDP/2014/PLEN/7).

II. Recent macroeconomic developments of Vanuatu

The Vanuatu economy has been experiencing relatively steady growth over several years and had been forecast by the Asian Development Bank to maintain growth in 2015 (see table 2). In fact, the ADB had referred to Vanuatu's growth performance "a rarity in the Pacific."[1] Growth has been maintained largely by the increasing number of visitor arrivals from Australia and New Zealand. However, recently released data may question the validity of these estimates and pose some risk to the country's growth prospects to some extent. Tourist arrivals declined by 6.2 per cent in the first 8 months in 2014. With the new arrival data, actual growth of the economy in 2014 could turn to be lower than estimated at the mid-2014, when the ADB prepared its forecast. Besides the tourism industry, the agriculture sector benefitted from price increases in international markets for major exportables, such as copra, coconut oil and meats, and cocoa. Additionally, the Government of Vanuatu started several large infrastructure projects in 2014, which are expected to significantly contribute economic growth the next few years.

The annual inflation rate remained within the target band of the Reserve Bank of Vanuatu of 0-4 per cent in recent years, and is forecast to remain in the band in 2015. Low inflation has been due to low international (Vanuatu's importable) commodity prices and the steady, yet moderate economic growth mentioned above.

Collection of value-added tax -- a major revenue source -- rose in 2013 and is estimated to have also increased in 2014, largely due to robust economic activities and improved tax compliance and coverage. This, however, was not sufficient to offset the decreases in excise tax and other taxes on goods and services and other items of recurrent revenue. As a result, total fiscal revenues are estimated to have declined in 2014 as shown in table 6.

Table 6: Vanuatu: Socio-economic indicators, 2009-2015

	2009	2010	2011	2012	2013	2014 a/	2015 b/
GDP growth rate (per cent, constant price)	3.3	1.6	1.4	1.5	3.2	3.5	4.0
Inflation rate (per cent)	4.3	3.0	1.0	1.4	1.4	2.5	3.0
Government revenue (billions of vatu)	16.9	16.71	15.80	15.76	16.25	15.69	16.85
Government expenditure (billions of vatu)	17.43	18.42	17.32	16.94	16.39	16.69	19.01
Government balance (billions of vatu)	-0.53	-1.71	-1.52	-1.18	-0.14	-1.00	-2.16
Government balance as per cent of GDP	-0.8	-2.5	-2.2	-1.6	-0.2	-1.8	-2.5
Gross ODA received (millions of dollars)	105.9	111.1	96.2	105.4	94.4	..	..
Balance of Payments (Millions of dollars)							
Current Account (Millions of dollars)	10.3	-34.9	-57.6	-50.3	-30.7	-47.0	-51.0
Goods, Credit (Exports)	55.2	51.3	67.4	54.7	44.6	..	..
Goods, Debit (Imports)	187.2	243.8	260.0	253.2	267.5	..	..
Balance on Goods	-131.9	-192.5	-192.6	-198.5	-222.9	..	..
Services, Credit (Exports)	248.3	276.7	286.0	321.8	330.4	..	..
Services, Debit (Imports)	108.7	123.7	145.0	145.9	145.3	..	..
Balance on services	139.5	153.0	141.0	175.9	185.1	..	..
Balance on Goods and Services	7.6	-39.5	-51.6	-22.6	-37.8	..	..

[1] Asian Development Bank (2013). "Asian Development Bank and Vanuatu: Fact Sheet", 31 December, available at http://www.adb.org/sites/default/files/publication/27812/van_1.pdf (accessed on 15 February 2015).

Balance on income	-22.1	-17.7	-18.5	-44.5	-11.4	..	..
Balance on current transfers	24.8	22.3	12.5	16.8	18.5	..	..
Capital Account	30.4	20.7	24.0	22.6	21.0	..	..
Financial Account	-20.2	-21.6	-47.6	-25.4	6.0	..	..
Direct investment (net)	-32.1	-40.4	-57.1	-37.2	-32.5	..	..
Portfolio investment (net)	0.9	3.2	-1.1	-3.5	16.3	..	..
Other investment (net)	-11.4	9.5	-2.0	9.8	12.3	..	..
Memorandum item:							
Reserves (Millions of dollar)	142	166	168	177	176	178 c/	..
Reserves (months of imports)	5.6	6.0	7.2	7.4	7.0	7.1 d/	..

Source: CDP Secretariat, based on national and international sources.

Notes: a/ Estimates. b/ Projection. c/ June 2014.
d/ October 2014.

The public debt is estimated at 21.2 per cent of GDP at the end of 2014, slightly up from 20.4 per cent in 2013. It is forecast to further increase to 22.3 per cent in 2015 by the IMF.[2]

The current account deficit is estimated to have been at 6 per cent of GDP in 2014 due to a widening merchandise trade deficit, and this is likely to persist for some years to come.[3] The increased agricultural production, together with the higher international prices for these products in recent years is estimated to lead to strong merchandise exports in 2014. Nonetheless, growth of the domestic economy, in particular import demands for materials and capital equipment for infrastructure projects, is estimated to have outpaced the export growth. On the other hand, the balance of service has recorded significant surplus in recent years, accounting for over 20 per cent of GDP, due to a steady growth in the tourism sector, largely due to the increased number of visitor arrival from Australia and New Zealand up to 2013 (see figure 3). Larger current account deficits for 2014 and 2015 in table 6 are forecast on the assumption of continuing strong demands for materials and capital equipment. With the declining visitor arrivals in the first 8 months in 2014, however, the deficits could be further widened in 2014 and 2015.

As reported last year, Vanuatu accessed to WTO in 2011, which has been expected to impact on the country's trade balance in view of liberalization commitments, including specific commitments on 10 services sectors. The cost of adjustment may be substantial, but it may be difficult to disentangle these impacts from the impacts of the eventual loss of LDC-specific preferential treatment following the graduation.

III. Developments related to indicators in the LDC criteria

Vanuatu was recommended for graduation on the basis of high GNI per capita and HAI and has continued to improve its scores on both criteria. The country's GNI per capita is estimated to be $2,997 in 2015, 18 per cent increase from $2,540 in 2012 (see table 7). It is also 2.4 times higher than the graduation threshold, established at the 2015 triennial review ($1,242) and, thus, it continues to meet the income-only graduation criterion, as well. The HAI indicators have also improved; under-5 mortality rate further decreased from 34.6 per 1,000 live births in 2012 to 16.9 per 1,000 live births in 2015. Both adult literacy rate and

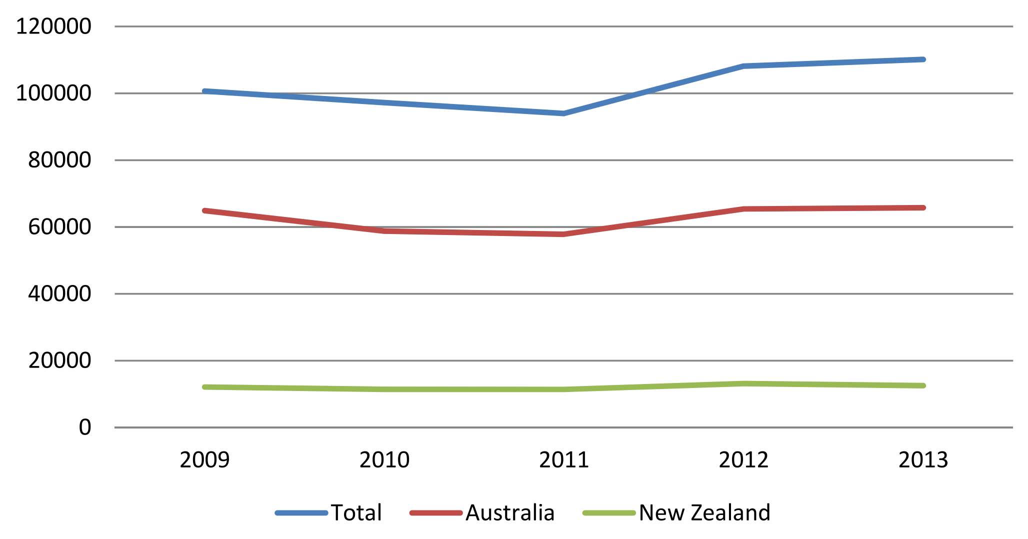
[2] IMF, World Economic Outlook Database, April 2014 (accessed on 18 February 2015).

[3] In the first half of 2014, current account deficits reached 1.6 billion vatu, compared with account surplus of 219 million vatu in the corresponding period of 2013. Reserve Bank of Vanuatu (2014), *Quarterly Economic Review, June 2014*.

gross secondary enrolment ratio have improved. On the other hand, the percentage of population undernourished worsened, but this is largely due to data revisions introduced by FAO, the source of data used for this indicator.

EVI continues to be above the graduation threshold of 32 and worsened marginally since 2012. The worsening is largely due to the increased share of agricultural production in GDP and slightly increased instability of agricultural production and exports of goods and services. As mentioned earlier, the agriculture sector increased production and exports due to price increases in international markets for copra, coconut oil and meats, and cocoa, which led to have increased the two instability scores.

Figure 3: Vanuatu: visitor arrivals by country of origin, 2009 - 2013



Source: CDP Secretariat, based on Reserve Bank of Vanuatu (2014), *Quarterly Economic Review*, *June 2014*, table 36.

IV. Preparation of the smooth transition strategy

The 2014 monitoring report recommended that Vanuatu initiate the preparation of its smooth transition strategy as early as possible, to minimize potential adverse impacts of graduation in two areas: loss of preferential treatment in trade and any eventual decline in ODA, although the country's major donors had indicated that support to the country did not depend on its status as LDC (reference to impact assessment). Australia, together with Japan and New Zealand, have been accounting for more than 90 per cent of total ODA of Vanuatu in recent years. In addition to these graduation-induced changes, the country needs to strengthen climate change adaptation measures and disaster management to place its economic development path on a more stable ground.[4] The country is yet to submit information on its smooth transition strategy.

With respect to development finance, ODA flows declined by $11 million in 2013 (see table 6). This is largely due to reduced ODA flows from Australia, the major donor for Vanuatu (see table 8). As reported in the 2014 monitoring report, this decline is due to cuts in the Australian aid-budget in financial year 2012-2013. Furthermore, in January 2014, Australia

[4] Vanuatu joined the Pacific Catastrophe Risk Insurance Pilot Program, a two-year pilot program in 2013.

announced that it "would reduce planned growth of the aid program and refocus it on the Indo-Pacific region" because of updating the Partnership for Development[5] in light of progress against the objectives and the changing context. The Government of Australia would expect that this leads to a reduction in planned expenditure earmarked for Vanuatu during the financial year 2014-2015.[6] While the Australian Government said that there would be an opportunity in coming months to "recalibrate the partnership in line with both governments priorities", the Government of Vanuatu would be required to adjust its short- and medium-term budget plans for current and capital expenditure.

V. Concluding remarks (Vanuatu)

The economy of Vanuatu has been experiencing steady growth over several years, due to growth of visitor arrivals from Australia and New Zealand, increased agricultural production and the implementation of various infrastructure projects. Recent declines in visitor arrivals and the expected reduction in ODA from Australia could decelerate growth, but positive rate of growth will be maintained, with the various infrastructure projects being under way. HAI continues to be well above the graduation threshold, but the country remain highly vulnerable to economic and natural shocks as indicated by its EVI score.

As its largest donor, Australia, is changing aid allocation among countries in the Indo-Pacific region, it is an opportune time for Vanuatu to initiate a smooth transition strategy with cooperation of Australia and its other major trading and development partners. With a well-planned smooth transition strategy at hand, the country will be able to minimize potential adverse impacts of graduation when it leaves from the LDC category in December 2017, and maintain sustainable development.

[5] Partnership for Development between Australia and its counterpart country is a document that establishes their shared visions to work together to meet their common challenges and to achieve improved development outcomes.

[6] See Department of Foreign Affairs and Trade, Australian Government (2014). *Aid Program Performance Report 2013-14: Vanuatu* (September).

Table 7: Vanuatu: LDC criteria indicators, 2009, 2012 and 2015

	2009	2012	2015
GNI per capita ($, Atlas method)	1,737	2,540	2,997
Income threshold for graduation ($, Atlas method)	1,086	1,190	1,242
Human asset index			
HAI score	72.3	77.7	81.3
Percentage of population undernourished	7.0	5.0	7.2
Under-five mortality rate (per one thousand live births)	42.1	34.6	16.9
Gross secondary enrolment ratio (per cent)	40.1	54.7	59.5
Adult literacy rate (per cent)	78.1	82.0	83.4
Economic vulnerability index			
EVI score	62.3	46.6	47.3
Exposure index			
Population	231,592	245,618	252,763
Remoteness (kilometer)	10,313	9,967	9.765
Merchandise export concentration	0.72	0.70	0.70
Share of agricultural, forestry and fisheries in GDP (per cent)	13.9	21.1	25.1
Share of population living in low elevated coastal areas (per cent)	--	4.53	1.18
Shock index			
Instability of exports of goods and services	13.66	7.89	8.40
Victims of natural disasters (per 100,000 population)	5.05 a/	2.77	2.38
Instability of agricultural production	8.25	6.96	7.63

Source: Committee for Development Secretariat.

Table 8: Gross disbursements to Vanuatu by Australia, Japan and New Zealand, 2008-2013

(Millions of dollars)

	2008	2009	2010	2011	2012	2013
Australia	26.81	40.04	55.96	61.78	67.54	51.94
Japan	14.07	13.07	15.61	7.39	10.14	13.53
New Zealand	10.53	15.5	12.86	13.57	15.25	14.92

Source: OECD.Stat.