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An overview of Economic Development in Vanuatu.

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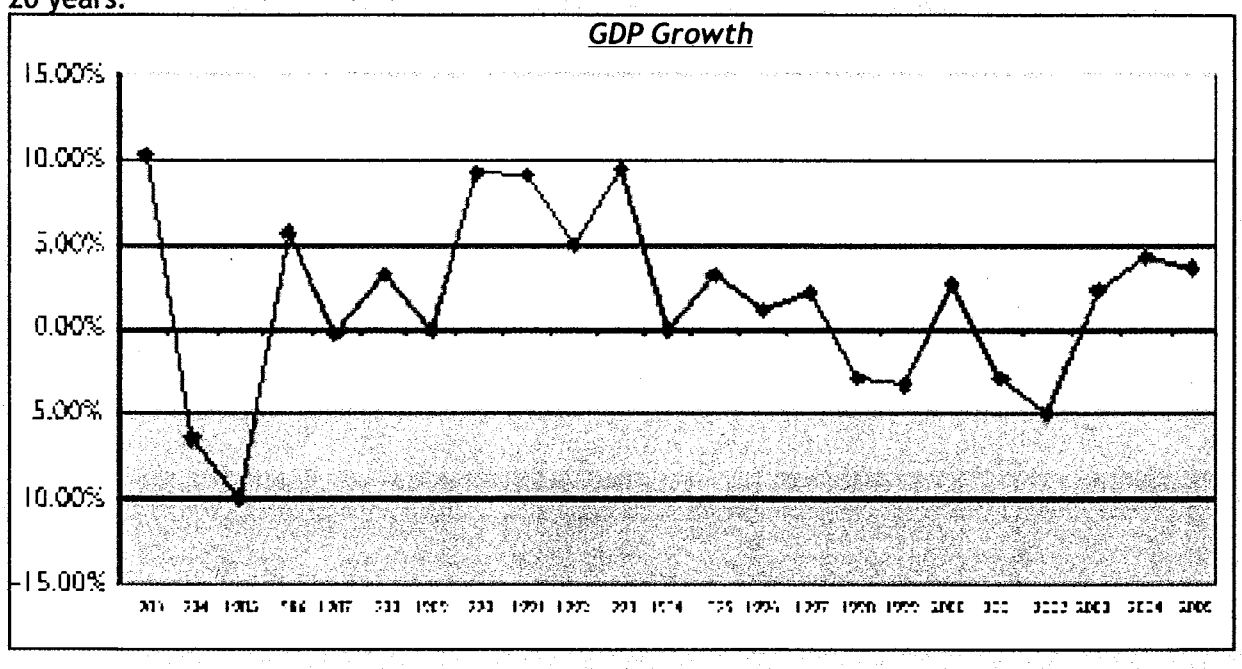
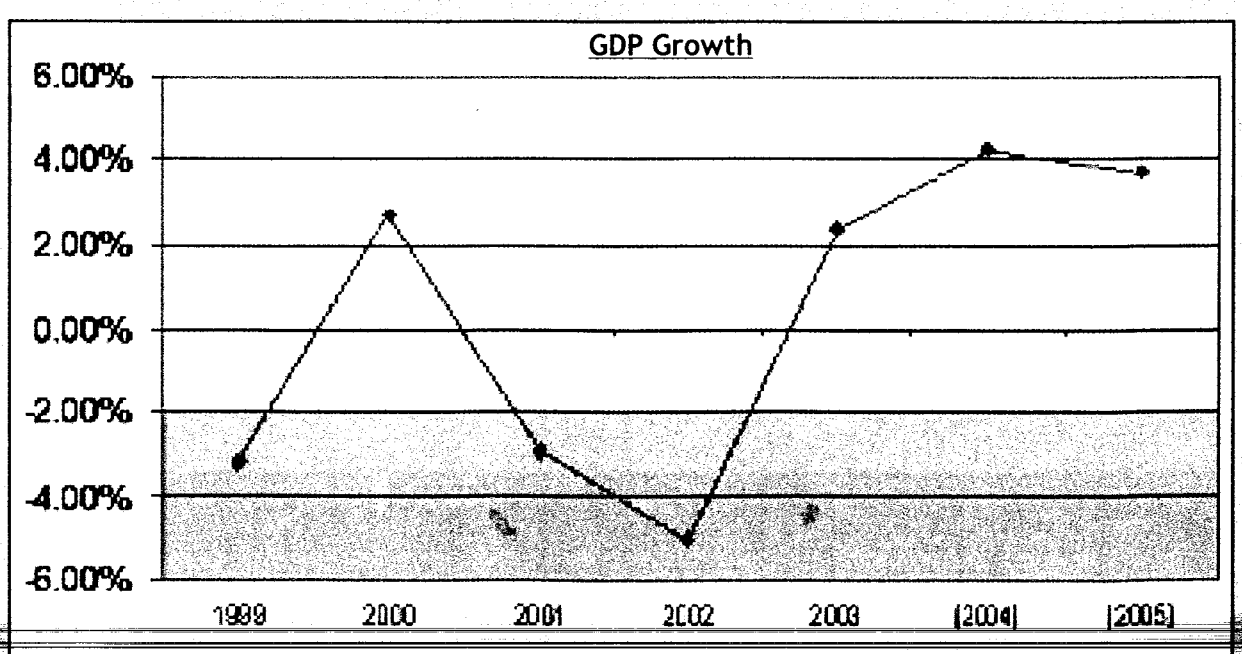
The Bank's last commemorative publication, 20 years of banking in Vanuatu contained a description of the economic situation in Vanuatu from 1980 to2000. This article aims to update that section by describing the situation from the year 2000 until the present date, so that combining the two books will give you a complete picture of Vanuatu's economy over the last 25 years.

The following graph shows just how volatile growth in Vanuatu has been over the last 20 years.



The last five years have been no different. As is shown on the following graph, GDP in Vanuatu has ranged between -5.00% and 4.30%.



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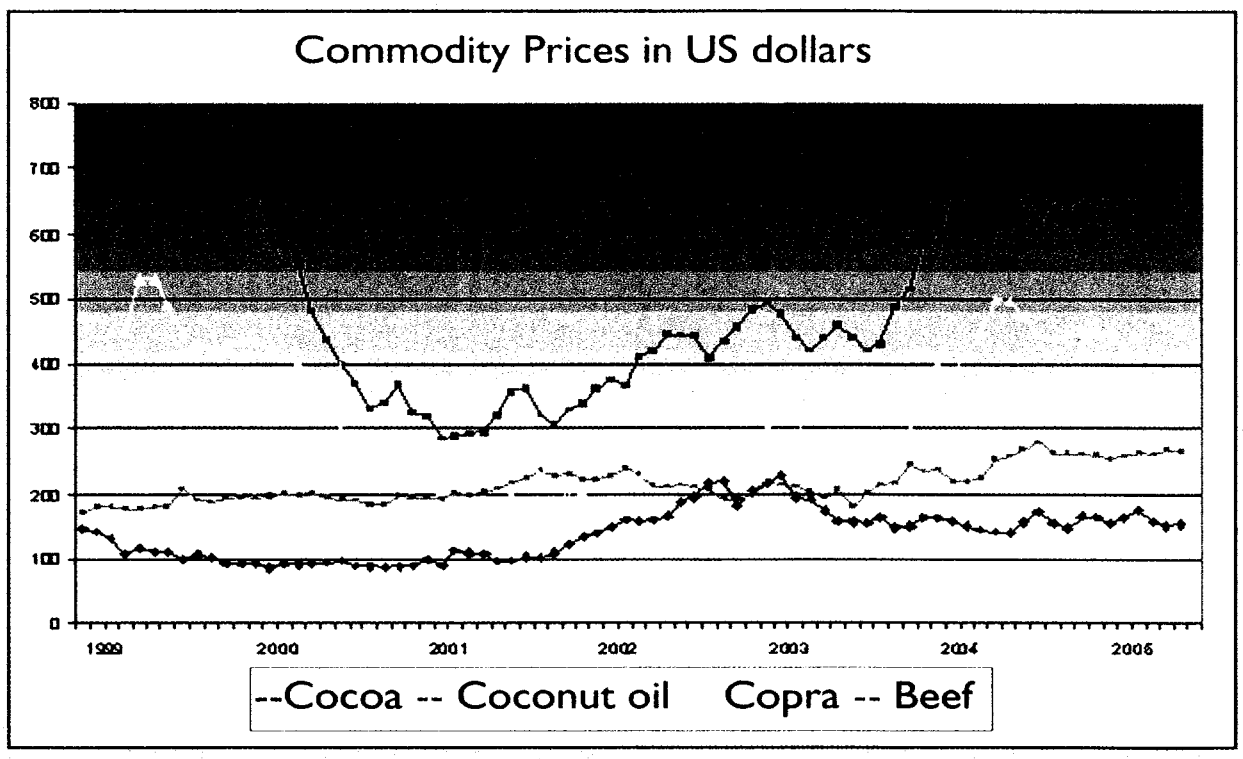
It is interesting to note that much of the variation in Vanuatu's fortunes has gone hand in hand with the variations of world prices for Copra as is seen in the graph below which charts the movements in price of Vanuatu's main export commodities. A comparison between the two graphs shows that they seem to follow the same pattern



However commodity prices are not the only determinants of the growth rate of Vanuatu's economy, let me therefore turn to a closer look at what has happened over the last five years.

2000 was a good year for economic growth in Vanuatu as real GDP growth rebounded from -2.90% in 1999 to reach 3.90% in 2000. Poor weather conditions and low air arrivals in tourism contributed to the contraction in Vanuatu's economy in 1999, but these conditions were reversed in 2000 when agricultural production in most sectors, especially copra, cocoa, and kava, rebounded strongly.

In the Agricultural sector, Kava and Cocoa both grew very strongly which provided a large boost to GDP after the damaging effects of Cyclone Danni in 1999 .Copra production also grew but much more modestly. Beef exports were down however due to fears over foot and mouth disease. The tourism sector, which accounts for roughly 40% of GDP in Vanuatu recorded growth of 12% in 2000 which also helped GDP. This growth was mainly due to the political instability in Fiji which caused tourists to look for other destinations, including Vanuatu. This high GDP growth was however accompanied by a pick-up in inflation to 4.l% from zero in the previous year.

The government operations in 2000 however did not fare as well as the rest of the economy, with a huge deficit of over 2 billion vatu being recorded. This deterioration was mainly attributed to large infrastructural projects undertaken. The balance of payments however remained in surplus due to a disbursement of loan money from the CRP loan.

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Therefore to sum, 2000 was a year of positive GDP growth for Vanuatu, mainly stemming from increases in tourism and agricultural production. GDP may also have been boosted by a substantial increase in government spending on infrastructural activity.

After the positive growth of the year 2000, things took a turn for the worse in 2001, when GDP fell by 2.9%. The drop in GDP mainly reflects the fact that commodity prices were low and that the government were having to provide huge subsidies to keep figures up, the Copra and beef markets both suffered declines from the previous years. Coconut oil and Kava exports however did increase on the previous year as did tourism. The main cause for the declining GDP was a drop in industry from the previous year as it went down 4.6%. There were also two damaging cyclones in the start of 2001 that were damaging to the agricultural sectors.

The poor performance in 2001 continued into 2002 when the economy contracted again, this time by 5%. This contraction came mainly from a contraction in the services sector as a result of further decline in tourism arrivals. The increase in the world prices of coconut products caused an increase in the production of copra. This also boosted coconut oil production and exports. Cocoa production also increased as the world price of cocoa trended upwards in 2002. Beef production however was more sluggish, registering a decline from last year, where as Kava production rose, the world price dropped, causing revenue to decrease. Tourism was also slow with a decline in arrival numbers on last year's already low level. Inflation continued to rise in 2002, posting a rate of 2.3% over the year, the government finances also continued to improve with their deficit being much lower than in the previous year. The cyclones in early 2001 will also have contributed to the sluggish growth in 2002 which was hit by Cyclone Ivy in December.

2003 however saw a much better year with growth returning into a positive figure of 2.4%. This growth was mainly driven by the agricultural sector and the boom in housing and land sales occurring as a result of the housing booms in Australia and New Zealand. The growth in the agricultural sector was due to a combination of rising world prices and of continued privatisation of the marketing board. Tourism remained roughly the same as the previous year's level and kava exports declined sharply where as beef and copra production both increased. The increased growth was accompanied by an increased rate of inflation of 2.98%. The government also continued to improve it s situation by managing to further reduce the deficit.

The year 2004 continued to show high and positive growth with the latest estimates showing growth of around 4.3% for the year. Growth was underpinned by continued high prices for Vanuatu's commodities and the growth in Vanuatu's main trading partners. Cyclone Ivy hit Vanuatu in the first quarter of last year which badly affected cocoa production but increased copra production towards the end of the year as the cyclone felled many nuts. This may mean slower agricultural growth in 2005 however. As for the production of Kava, despite the imposition of an EU-wide ban, exports still increased as new markets were founding Fiji and New Caledonia. Tourism also showed increases on the previous year due to the purchase of a new aircraft by air Vanuatu and to the arrival of Pacific Blue in September 2004. Cruise ship calls however declined.

The most positive outcome for 2004 however seems to be the dramatic turnaround in government finances which showed a large surplus in 2004, although this surplus was largely due to an influx of foreign aid it is a positive change nonetheless. The pick up in growth was not matched by increases in inflation which remained subdued at 0.8%.

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The positive rates of growth experienced over the last two years are predicted to continue into 2005, despite the political turmoil which occurred in December 2004, forecasts have remained robust. Figures for the first half of the year show that agricultural production is currently down on last year but that this is largely due to the after effects of cyclone Ivy and that the third quarter should see an increase, the start of 2005 has been characterised by continued large amounts of aid inflows which have contributed to a continued improvement in the government position, it has now started retiring debt and is no longer using its overdraft facility with the Reserve Bank. Therefore the start of the year has been positive and there is no reason to expect that the growth target will not be met.

In conclusion therefore, over the last few years Vanuatu's economic situation has been very volatile with a number of strongly growing years counter-balanced by some years of strong negative growth. It seems however that the situation has now stabilised, world commodity prices for Vanuatu's main exports are high but stable, the government appears to be in good shape, with increasing amounts of revenue, both domestic and in foreign aid. The political situation in the country also appears to be stable at the moment which should hopefully lead to increased tourism in the future. Therefore all the signs are there that Vanuatu's growth should remain intact in the near future. It is up to the country as a whole including politicians, businesses and the Reserve Bank to ensure that this situation stay the same and that the maximum possible benefits for all are extracted from this period of high growth and that the foundations are endured so that it can continue way into the future.