

# Regional Workshop on Resource Mobilization

## Economic and Fiscal Update

Treasury Division  
November 26 2018



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## OUTLINE

### ∞ Economic Update

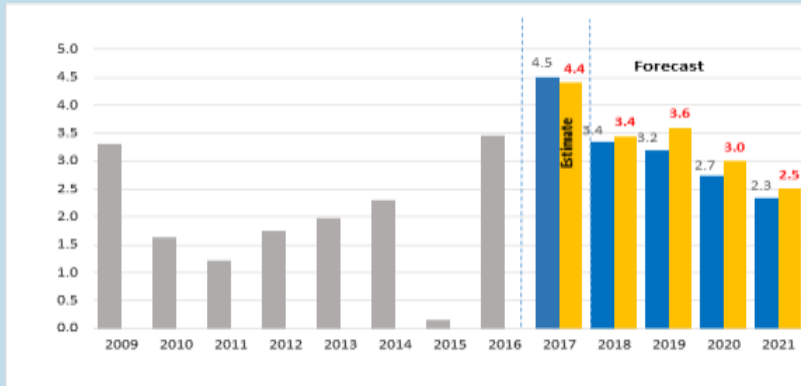
- Real Sector Update
- Monetary and External Update
- Challenges and upside risks

### ∞ Fiscal Update

- Fiscal update for the past 3 years
- 2018 Fiscal Update
- Fiscal Risk and challenges

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## Macroeconomic Outlook Forecast



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## Agriculture Update

- ☞ Copra production declining since 2017 due to fall in market price
- ☞ Kava production continued at fast increasing rate
- ☞ Expecting Kava production to remain strong for 2018 and over the medium term
- ☞ Beef production fell in 2018 as cattle restocking continues – Current Govt policy to stop execution of cow to encourage more cattle breed.
- ☞ Coffee production remained low from 2017
- ☞ Cocoa production fell dramatically; production expected to remain below level prior to TC Hola
- ☞ High domestic demand for fish continues
- ☞ Programs
  - Restocking programs continue
  - Coconut replanting continue
  - EDF 11 fund to support productive sector over the medium term

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## Government Projects

### ONGOING PROJECTS

Vanuatu Government Projects	Total Value (VT)
PV Urban Development	3,666,041,899
Inter Island Shipping	4,768,751,633
Vanuatu Aviation Investment Project	6,651,010,002
VTSSP Phase 2	352,950,000
Bauerfield Airport	5,055,120,000
<b>Total</b>	<b>20,493,873,534</b>

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## Services

- Second half of 2018 indicated growth in air arrivals
- Solid growth in day arrivals
- Modest growth in VAT & import for home consumption
- Growth for Accommodation and Food Services in 2018 – modest growth picking up second half.
- Bauerfield reconstruction – Increase air arrivals in 2019 onwards.
- Govt. through VTO increased marketing in major tourist destinations-*More Europeans and AUS/NZ in 2018 (Effective marketing)*
- Real estate markets picked up but at slow growth
- Expecting solid growth in Finance and Insurance
- Increased Government spending in 2018

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## Inflation, Monetary and External Update

- ☞ Year-on-year inflation rose to 2.3 per cent in the second quarter of 2018
- ☞ Monetary conditions showed improvement during first half of 2018 due to strong growth in money supply mainly driven by NFA while domestic credit remain on the low side.
- ☞ Overall the balance of payments recorded a surplus balance at end of August, an improvement from June deficit. Foreign reserves at adequate level of 4 months of imports-*expected to remain over medium term*

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## Challenges

- ☞ Major Commodity exposure to shocks (weather & price movements)-Copra and Cocoa.
- ☞ Depreciation of Vatu against its major trading partners affects Trade and projects plans.
- ☞ Continuous expansionary fiscal policy
- ☞ Land issues – impacts on developments by investors
- ☞ Influx of investors on real estate purchase may attribute to high cost of land purchased by locals.

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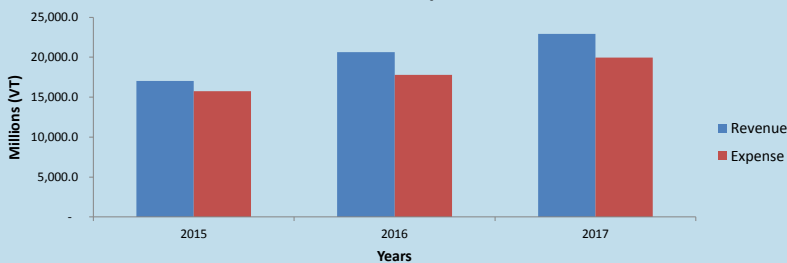
## Upside Risk

- ⌘ EDF 11 funding towards productive sector will strengthened policy direction towards growth in the medium term
- ⌘ High chance to implement more infrastructure projects
- ⌘ Positive spill over effect in the medium term from high commodity price and the current implementation of infrastructure projects. Copra subsidy ( 150 million payout)
- ⌘ Increase in Government fiscal policy in 2018/19 will boost growth.

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## Fiscal Update

Government Revenue Versus Expense from 2015-2017



	2015	2016	2017
Revenue	17,035.6	20,643.8	22,922.2
Expense	15,765.3	17,808.7	19,951.0
<b>Net Operating Surplus</b>	<b>1,270.3</b>	<b>2,835.1</b>	<b>2,971.2</b>
Net Acquisition of Non Financial Assets	418.4	596.5	719.7
<b>Net Lending /Borrowing (Fiscal Balance)</b>	<b>851.9</b>	<b>2,238.6</b>	<b>2,251.5</b>

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## 2018 Fiscal Update (Up to September)

### Revenue

- Collected VT 20,773.0 million at the end of September.
- 90.9 % of budget target (VT 22,8 51.6 million).
- 23.0 % more than VT 16,890.0 million collected last year.

### Expense

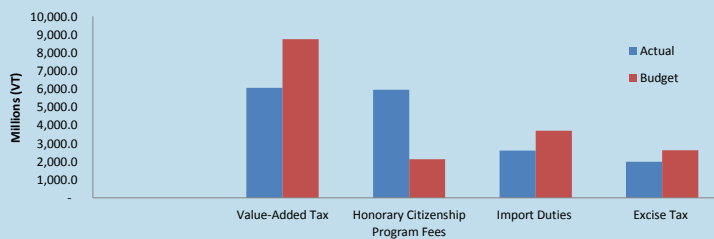
- Record an expense of VT 16,075.5 million at the end of September.
- 61.2 % of the Budget target (VT 26,264.5 million).
- 18.1% more than VT 13,613.6 million recorded last year.

### Financing

- To date, net operating surplus (excluding donors) recorded VT 4,697.5 million.
- At the end of September, Government amortize VT 1, 815.4 million domestic loans and VT 1,338.2 million worth of external loans.

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## Major Sources of Government Revenues in 2018



	Actual	Budget
Value-Added Tax	6,055.5	8,744.2
Honorary Citizenship Program Fees	5,962.5	2,120.0
Import Duties	2,605.6	3,699.5
Excise Tax	1,989.0	2,617.1

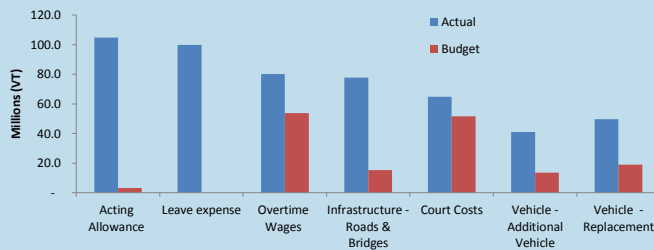
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## Major Sources of Government Revenue.

Major Revenue	Average % Contribution to total annual Revenue
Value Added Tax @ 15%	35%
Citizenship program	12%
Import Duties	16%
Excise Tax	12%
Immigration and Boarder	3%
Agriculture / Livestock and Biosecurity	3%
Land and Sea transport related Revenue Activities	3%

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## Major Government Expenditure Items in 2018

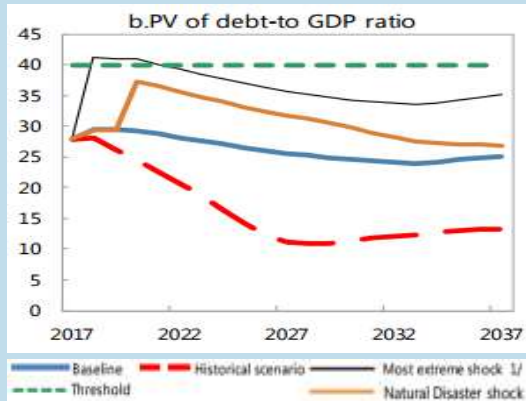


	Actual	Budget
Acting Allowance	104.8	3.1
Leave expense	99.8	-
Overtime Wages	80.1	59.8
Infrastructure - Roads & Bridges	77.7	15.2
Court Costs	64.9	51.7
Vehicle - Additional Vehicle	41.1	13.6
Vehicle - Replacement	49.7	19.0

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## Debt Update

### PUBLIC DEBT TO GDP RATIO



Debt Sustainability Analysis (DSA) for Vanuatu shows that external risk of debt distress remains “Moderate”

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## Key Debt Management Policy

- Given Vanuatu’s vulnerability to natural disasters, the Government will be cautious with future major infrastructure projects in regards to rapid debt accumulation;
- Rebuild fiscal buffers over the medium term through strengthening public finance;
- Management, reprioritizing spending, and mobilizing new revenue resources
- Continuous Prepayment of Loans when fiscal conditions are favourable

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## Key Milestones

- For the first time the Government has began reducing debt levels this year due to improved fiscal conditions.

*E.g. Reduced more than 20% of Domestic Debt (VT 1.4 billion) including VT 1.5 Billion of External debt (more than 4 loans have been payed out so far in advance – Including an Exim Bank loan – Y12).*

- Major infrastructure projects have been successfully completed with on lending agreements made for them also.

*E.g. Lapetesi Wharf & Luganville International Wharf, Santo (both are just VT 8 Billion each).*

- Tanna & Malekula Road (Phase 1) are also on schedule and is to be completed early Feb 2019
- Improvements on current Debt Framework – Debt Management Strategy, On lending & Guarantee policies & Financial Regulations capturing debt policies

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## Fiscal Risk and Challenges

### Revenue

- ☞ Vanuatu has a very Narrow tax base.
- ☞ Very high number of fees and charges contributing only 11% - 15% to total Revenue.
- ☞ Revenue collection from citizenship related activities is not sustainable.
- ☞ Political will to support other source of revenue.

### Expense and Debt

- ☞ Increase in payroll due to Structures & GRT.
- ☞ Unforeseen and Unbudgeted expenditures
  - Meeting the cost of scholarship awards.
- ☞ Meeting the cost associated with natural disasters and the effects of global warming.
- ☞ Rise in the value of the US dollar increase debt servicing cost.
- ☞ Guarantees and indemnities associated with GBEs.
- ☞ Preserving fiscal space and safeguarding debt sustainability in the face of growing developments.

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**THANK YU TUMAS**

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