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Note by the Secretariat on
Monitoring of Graduating Countries from the Category of Least Developed Countries

Equatorial Guinea and Vanuatu[1]

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. Monitoring development progress of Equatorial Guinea

In 2009, the Committee recommended Equatorial Guinea to graduate in accordance with the "income only" rule, as its GNI per capita was several times above the income graduation threshold.[1] Responding to the findings by the Committee, the Government of Equatorial Guinea stated that despite rapid income growth, the economy remained extremely fragile due to its excessive dependence on the oil sector. In view of this observation, Equatorial Guinea requested a period of transition up to the year 2020—the year when the implementation of the national development strategy will be finalized—before it could be reclassified to a non-LDC.[2]

ECOSOC considered this matter and endorsed the recommendation for graduation by the Committee in 2009 (E/RES/2009/35). General Assembly took note of the recommendation by the CDP in 2013 (A/RES/68/18). The General Assembly also decided to provide Equatorial Guinea, on an exceptional basis, with an additional preparatory period of six months, before the start of the three-year preparatory period leading to graduation. Therefore, Equatorial Guinea is scheduled to graduate on 4 June 2017 (see table 1).

Recent macroeconomic developments

Equatorial Guinea is highly dependent on the oil sector, and has experienced economic slowdown when oil prices fell and production also decreased, As government spending on infrastructure projects declined, real GDP contracted by 4.8 per cent in 2013 (see table 2), and is estimated to have contracted by 2.3 percent in 2014.[3] Real GDP is projected to further contract by 1.6 per cent in 2015 and 0.7 per cent in 2016, even if oil prices rebound to a higher level. Based on a more realistic scenario that oil prices will not rebound quickly from the current level, various estimates (real GDP growth of -8.5 per cent[4], -4.9 per cent[5], or -4 per cent[6] in 2015) suggest that growth prospects remain unfavorable.

The external sector is a key source of vulnerability in view of the country dependence on the oil sector.[7] According to the African Development Bank's estimates, the current account deficit has increased from $1.4 billion in 2013 to $2 billion in 2014, as receipts from the oil sector sharply declined. The current account deficit is forecast to reach 17.5 per cent[8] or as high as 71.7 per cent[9] of GDP in 2015, depending on underlying assumptions on global economy. The large trade deficit is financed mainly by foreign direct investment inflows ($2.1 billion in 2012, see table 2), loans from bilateral creditors, particularly China, and drawing down on foreign and government reserves.[10] Equatorial Guinea's foreign exchange

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[1] Report on the twelfth session of the Committee for Development Policy, 22-26 March 2010 (E/2010/33, Supplement No. 13)
[2] Equatorial Guinea, Written statement by the delegation of Equatorial Guinea before the plenary session of the Committee for Development Policy on the Least Developed Countries, New York, March 2009.
[3] UN DESA, World Economic Situation and Prospects 2014.
[4] African Development Bank, Equatorial Guinea Economic Outlook, African Economic Outlook 2014.
[5] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.
[6] Oxford Economics, Country Economic Forecast, January 2015.
[7] IMF, Article IV consultation: Equatorial Guinea, 2012.
[8] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.
[9] Oxford Economics, Country Economic Forecast: Equatorial Guinea, January 2015.
[10] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.

reserves decreased by 9 per cent from $4.4 billion to $4.0 billion between December 2012 and December 2013.

Table 2. Equatorial Guinea: Socio-economic indicators, 2009-2014

	2009	2010	2011	2012	2013	2014
GDP growth rate (per cent, constant price in local currency)	-8.1	-1.3	5.0	3.2	-4.8	..
Inflation rate (per cent)	5.7	5.3	4.8	3.4	3.2	3.9
Government revenue (in local currency, billions)	2,368.1	2,150.9	2,849.0	3,194.7	2,673.0	2,484.9
Government expenditure (in local currency, billions)	2,827.5	2,516.9	2,767.0	4,023.5	3,276.9	2,991.0
Government balance (in local currency, billions)	-459.4	-365.9	-82.0	-828.8	-603.9	-506.1
Government balance as per cent of GDP	-10.4	-6.4	1.1	-9.8	-7.8	-6.8
Gross ODA received (Millions of dollars)	26.5	80.0	23.0	14.7	8.5	..
Balance of Payments (Millions of dollars)						
Current Account	-2,170	-2793	-1565	-2,216	-1,417	-1,999
Goods, Credit (Exports)	8,526	10,332	14,306	..	..	..
Goods, Debit (Imports)	5,597	5,485	6,972	..	..	..
Balance on Goods	2,928	4,847	7,334	..	..	..
Services, Credit (Exports)	..	..	..	..	..	..
Services, Debit (Imports)	..	..	..	..	..	..
Balance on services	-1,802	-2,055	-2,638	..	..	..
Balance on Goods and Services				8,118	7,963	7,499
Balance on income	-3,191	-5,477	-6,155	..	..	..
Balance on current transfers	-106	-108	-107	..	..	..
Capital Account	0	0	0	..	..	..
Financial Account	641	2,404	2,602	..	..	..
Direct investment (net)	1,636	2,734	1,975	2,115	..	..
Portfolio investment (net)	0	0	0	..	..	..
Other investment (net)	-663	-330	627	..	..	..
Memorandum item:						
Reserves (Billions of dollar)	3.3	2.3	3.1	4.4	4.0	..
Reserves (months of imports)	13.4	10.2	8.3	8.3	8.3	..

Source: World Bank, World Development Indicators; IMF, World Economic Outlook 2015; African Development Bank, African Economic Outlook 2014 Statistics; IMF, Article IV consultation: Equatorial Guinea, 2012.

As revenue from the oil sector accounts for around 90 per cent of total government revenue, fiscal balance is expected to deteriorate over time with falling oil prices and large government expenditure on infrastructure. The fiscal deficit is forecast to reach 7.7 per cent[11] of GDP in 2015 (or 12.8 per cent of GDP according to other estimates[12]), and then decrease over the medium term, as the government spending declines due to financing constraints.

As seen above, oil sector is the key to the Equatorial Guinea's economic prospects. Mineral fuels export accounts for 93 percent of all commodity exports in 2013 (see table 3). According to the most recent estimate, Equatorial Guinea had proven oil reserves of 1.7

[11] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.
[12] African Development Bank, Equatorial Guinea Economic Outlook, African Economic Outlook 2014.

billion barrels as of 2013.[13] The country's oil supply increased dramatically, peaking at 376 thousand barrels per day in 2005.[14]

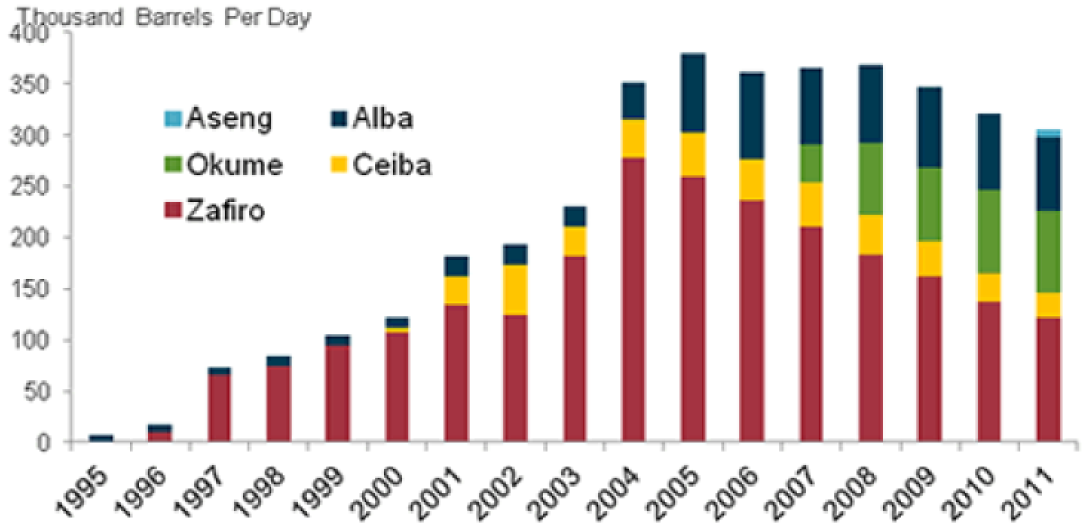
Table 3. Equatorial Guinea: value of exports by main commodities exported, 2013

HS (as reported) commodity code	Exports	Value (US dollar billions)	Share (per cent)
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	13.6	93.4
29	Organic chemicals	0.5	3.5
44	Wood and articles of wood; wood charcoal	0.2	1.1
Total		14.5	100

Source: UN Comtrade, accessed 2 February 2015.

In the past decade, however, as the most productive field has gradually matured, oil production in Equatorial Guinea has steadily declined (see figure 1). Total production is expected to drop to around 234 thousand barrels per day in 2015, down from an estimated 254 thousand barrels per day in 2014.[15] Due to a steady fall in the productivity of existing fields, in the absence of significant new discoveries, the overall output is expected to fall further to around 196 thousand barrels per day in 2020.[16]

Figure 1 Equatorial Guinea: oil production, by field, 1995-2011



Source: US Energy Information Administration, Country Analysis Brief 2012.

[13] Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, July 2014.
[14] US Energy Information Administration, Country Analysis Brief 2012.
[15] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.
[16] Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, July 2014.

Equatorial Guinea is estimated to have 1.3 trillion cubic feet of proven natural gas reserves as of 2013, with probable gas reserves totaling in excess of 4.4 trillion cubic feet.[17] Between 2001 and 2010, Equatorial Guinea's natural gas production increased rapidly from 1 billion cubic feet to 238 billion cubic feet.[18] There have also been multiple new gas finds in the region, which if realized at their estimated potential, could yield a significant boost to Equatorial Guinea's gas production in the long term. In fact, the development of a floating liquefied natural gas facility would significantly increase LNG-processing and exporting capacity in a few years.[19]

While seeking to encourage increased oil exploration to compensate for decreasing productivity of existing oil fields, the government emphasized economic diversification as a priority in the National Economic Development Plan: Horizon 2020, the country's long-term development strategy. Although diversification into non-oil sectors is still very limited, there have been efforts to diversify products, financing sources and markets for the extractive industry. Large public investment has been made in exploring gas extraction and building LNG processing capacity in recent years. Sources of investment financing have also diversified, as firms from China, Nigeria, and Russia are expanding their presence in the country, although United States companies still dominate the country's hydrocarbons sector. Export markets are diversified as well. For example, majority of the LNG exports are directed to a few new customers including Chile, Japan, and Republic of Korea.[20]

Developments related to indicators in the LDC criteria

Equatorial Guinea achieved high levels of national income (see table 4). Preliminary estimates suggest that GNI per capita of Equatorial Guinea in the 2015 review is $16,088, 13 times higher than the graduation threshold established at the 2015 triennial review ($1,242).[21] The income data in table 4 are not comparable over time, because the data source changed from World Bank to United Nations in the 2015 review. Using only the United Nations data, the GNI per capita increased almost by 6 times since 2004 (see figure 2). As discussed above, a projected contraction of real GDP in 2015, due to falling oil prices and declining oil production, is likely to lead to a reduction in the GNI per capita. Yet, national income is forecast to be sustained at a high level in the medium term, supported by an increase in natural gas output, and expansion of the investment on infrastructure.[22]

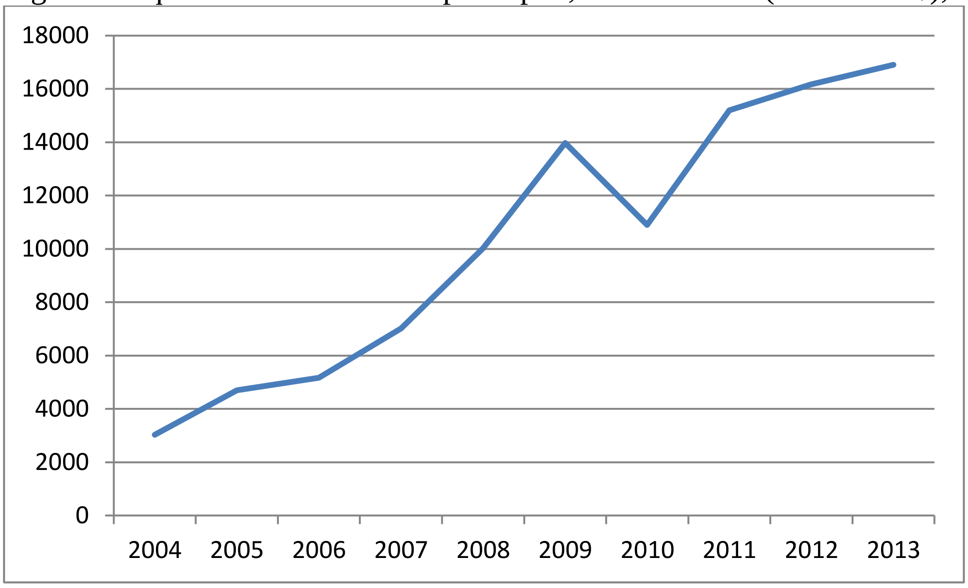
[17] Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, July 2014.
[18] US Energy Information Administration, Country Analysis Brief 2012.
[19] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.
[20] Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, July 2014.
[21] Committee for Development Policy Secretariat. The graduation threshold in 2015 triennial review was established based on 2011-2013 data.
[22] Economic Intelligence Unit, Country Report: Equatorial Guinea, February 2015.

Table 4. Equatorial Guinea: LDC criteria indicators, 2009, 2012 and 2015 reviews

Index/Criteria	**2009**	**2012**	**2015**
GNI per capita in USD	8,956.7	15,090	16,088.6
EVI	60.5	43.7	39.3
Population	519,697	720,213	757,014
Remoteness	44.5	48.8	48.4
LECZ (%)	n.a.	6.38	5.42
Export concentration	0.91	0.77	0.74
Shares of agriculture, forestry and fisheries	4.2	2.1	1.4
Victims of natural disasters (%)	0.015	0	0
Agricultural instability	2.4	3.13	2.54
Export instability	35.0	30.03	24.89
HAI	49.5	43.0	54.8
Undernourishment (%)	30.0	30.0	30.0
U5MR (per 1,000)	172	167	96
Adult literacy rate (%)	87.0	93.0	94.5
Gross secondary school enrolment (%)	31.9	26.2	28.2

Source: Committee for Development Secretariat.

Figure 2. Equatorial Guinea: GNI per capita, Atlas method (current US$), 2004-2013



Source: United Nations Statistics Division.

While there seems to be improvement in human assets, the HAI score still remains low at 54.8 in the 2015 review. However, progress is explained partly by changes in data sources and methodology adopted in the 2015 review, and partly by real progress. For instance, the under-5 mortality rate as presented in table 4 dropped from 167 per 1,000 live births in the 2012 review to 96 in the 2015 review, but the indicators come from two different data sources.[23] If the data source for 2015 had been used for 2012 as well, the change would have been smaller, from 106 in 2012 to 96 in 2015. When approaches adopted for the 2015 review are used for previous reviews, the HAI scores for Equatorial Guinea have not changed much (49.7, 51.3, and 54.8 in the 2009, 2012, and 2015 reviews, respectively).

[23] Data was obtained from Population Division of UN DESA for the 2012 review, while the data was from United Nations Inter-agency Group for Child Mortality Estimation for the 2015 review

As shown above, there is a large discrepancy between the country's income level and its human development. Equatorial Guinea's Human Development Index (HDI) value for 2013 was 0.556, which was in the medium human development category, positioning the country at 144 out of 187 countries and territories (see table 5). In Sub-Saharan Africa, countries which are close to Equatorial Guinea in 2013 HDI rank and country size are Cape Verde and Sao Tome and Principe, ranked 123 and 143 respectively, but those countries' GNI per capita are far lower than that of Equatorial Guinea. On the other hand, countries which are close to Equatorial Guinea in terms of income levels, such as Mauritius and Seychelles, have much higher HDI values, 0.771 (ranked 63) and 0.756 (ranked 71), respectively. Table 4 shows that the low HDI value for Equatorial Guinea is due to significantly low levels of life expectancy and mean years schooling.

Table 5. Equatorial Guinea: Human Development Index indicators for 2013 relative to selected countries and groups

Country	**HDI value**	**HDI rank**	**Life expectancy at birth**	**Expected years of schooling**	**Mean years of schooling**	**GNI per capita (2011, PPP US$)**
Mauritius	0.771	63	73.6	8.5	15.6	16,777
Seychelles	0.756	71	73.2	9.4	11.6	24,632
Cape Verde (a)	0.636	123	75.1	13.2	3.5	6,365
Sao Tome and Principe (b)	0.558	143	66.3	11.3	4.7	3,111
Equatorial Guinea	0.556	144	53.1	8.5	5.4	21,972
Sub-Saharan Africa	0.502	—	56.8	9.7	4.8	3,152
Medium HDI	0.614	—	67.9	11.7	5.5	5,960

Source: UNDP, Human Development Report, 2014.
Note: (a) Cape Verde graduated from the LDC category in 2007.
(b) Sao Tome and Principe meets the criteria for graduation for the first time in 2015 according to preliminary estimates by the CDP Secretariat.

Equatorial Guinea's EVI score is 39.3 in the 2015 review (see table 4). Whether the country actually made improvement in reducing vulnerability over time should be carefully examined, because data sources and methodology have also changed for some EVI indicators in the 2015 review. For instance, the decrease in export instability[24] from 30 in the 2012 review to 24.9 in the 2015 review, seemingly the main factor that contributed to the changes in EVI scores, could be explained in part by the changes in methodology to calculate the index.[25] Applying the same data sources and methodology used for the 2015 review indicates that EVI scores have changed only by small margins (45.3 in the 2009 review, 43.1 in the 2012 review, and 39.5 in the 2015 review).

III. Preparation of the smooth transition strategy

The ex-ante impact assessment of likely consequences of graduation of Equatorial Guinea from the LDC category which was conducted in 2009 suggested that graduation is not

[24] The export instability is a trade shock index which is designed to capture the instability resulting from structural factors such as fluctuations in world demand and other reasons not necessarily associated with the domestic policy of the country. See Committee for Development Policy, Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures, 2008.

[25] If the same methodology used in the 2015 review is applied to the 2012 review, the export instability would have decreased only slightly, from 27.3 to 24.9. For details on the methodology change, see Committee for Development Policy, Report on the sixteenth session of the Committee for Development Policy, 24-28 March, 2014 (E/2014/33, Supplement No. 13), para 51.

expected to bring substantive impacts on the development progress of Equatorial Guinea.[26] The country's export structure implies little preferential treatment by major importing markets, including China, the European Union and the United States. And the country has limited reliance on bilateral official development flows – net ODA as a percentage of GNI was only 0.07 per cent in 2013.[27]

Nonetheless, a smooth transition strategy should be prepared to engage the country's development partners in providing the necessary support to ensure that the country's development path is sustainable. The Government has been invited to submit a concise report on the preparation of the smooth transition strategy, but has not responded to the repeated invitations by the CDP Secretariat, and has not participated in the monitoring exercise yet.

IV. Conclusions (Equatorial Guinea)

In contrast to its strong performance in income, the country's progress in improving human assets and reducing vulnerability is lagging behind. Indicators measuring living condition, health, and education remain at low levels when compared to other countries with similar income level. The country also remains highly vulnerable to external shocks, due to its high dependency on the oil sector. Diversification into non-oil industries is in urgent need. For instance, agriculture, the population's main source of income, is limited to subsistence farming and covers only 30 per cent of the domestic consumption.[28] While the agriculture absorbs more than 60 per cent of labor force, the land used for cultivating crops has steadily declined by 6 per cent annually in the period of 2007-2012.[29]

In this context, a smooth transition strategy of Equatorial Guinea will have to be customized in order to reflect the country's special economic situations and to ensure a sustainable development of the country. As Equatorial Guinea's medium- to long-term development prospects depend extensively on future oil revenues, the Government of Equatorial Guinea is encouraged to prepare, in collaboration with its partners, its transition strategy for successful implementation of economic policies to promote diversification, reducing excessive dependence on the hydrocarbons sector, and to improve human development.

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[26] UN/DESA, Ex-ante impact assessment of likely consequences of graduation of Republic of Equatorial Guinea from the least developed country category, 2008.
[27] Calculated from OECDStat and World Development Indicators, accessed 2 February 2015.
[28] African Development Bank, Equatorial Guinea Economic Outlook, African Economic Outlook 2014.
[29] FAO, Country profile: Equatorial Guinea, available from http://faostat.fao.org/CountryProfiles/Country_Profile/Direct.aspx?lang=en&area=61

V. 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."[30] 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.

[30] 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).

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	..	..
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.[31]

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.[32] 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.

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

[32] 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*.

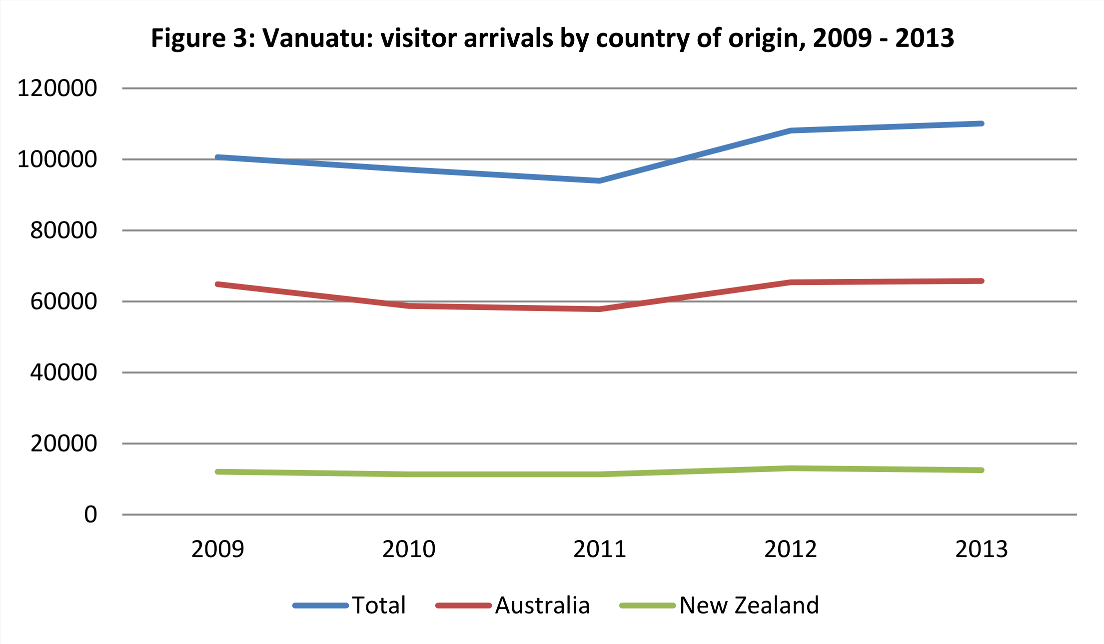
Nonetheless, growth of the domestic economy, in particular import demands for materials and capital equipment for infrastructure projects, is estimated to have outpaced the export growth. On the other hand, the balance of service has recorded significant surplus in recent years, accounting for over 20 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.

VI. 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 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.



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

VII. 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.[33] 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 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[34] 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.[35] While the Australian Government said that there would be an opportunity in coming months to "recalibrate the partnership in line with both

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

[34] 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.

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

governments priorities", the Government of Vanuatu would be required to adjust its short- and medium-term budget plans for current and capital expenditure.

VIII. 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.

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	252,76 3
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.