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Monitoring of countries graduating and
graduated from the LDC category:

Vanuatu



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Summary

Vanuatu was heavily affected by Cyclone Harold and COVID-19 pandemic in 2020. But the real GDP has recovered slowly in 2021 and 2022. The Government of Vanuatu has been implementing the STS and submitted its annual report on STS. The CDP suggests the country to continue focusing on promoting productive capacity, as building resilience in the long run is critical for the country. It was also suggested that Vanuatu continues making efforts to overcome the limited statistical capacity with assistance from development partners.

Macroeconomic situation

Vanuatu's economy has rebounded from Cyclone Pam in 2015, expanding at a rate of 2.9 per cent to 4.4 per cent a year from 2016 to 2019. (See table 1). In 2020, devastating natural catastrophes and the COVID-19 pandemic hit hard the economy. Many of the residents were heavily impacted by both Cyclone Harold (a category 5 storm) and a volcano eruption.¹ Additionally, between March 2020 and late 2022, the country closed the border, which prevented a local pandemic of the coronavirus until April 2022 but had a significant impact on the national economy. This is estimated to have resulted in a 9.2 per cent drop in 2020's real GDP.² After stagnating in 2021, growth is expected to recover only slowly in 2022 with a growth of 1.8 per cent,³ supported by increases in agricultural output, remittances, and construction activities.⁴

The government's projected surplus has dropped to -2.0 (as a percentage of GDP) in 2020, mostly because of lower-than-expected tourist income. The decline in service exports (tourism), which formerly constituted the bulk of inflows, is particularly striking. Taxes as a percentage of GDP are at 17.6.⁵

Table 1. Selected macroeconomic data for Vanuatu, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	3.5	4.4	2.9	3.3	-9.2	0.4
Inflation rate (annual percentage change)	0.8	3.1	2.3	2.8	5.3	4.7
Government revenue (billions of national currency)	30.1	34.1	39.8	45.8	43.5	48.7
Government expenditure (billions of national currency)	30.7	35.2	33.5	42.8	45.5	46.2
Government balance (billions of national currency)	-0.6	-1.1	6.3	3.0	-2.0	2.5
Government balance (per cent of GDP)	-0.7	-1.2	6.3	2.8	-2.0	2.4
Net ODA received (millions of US dollars)	129.1	132.7	130.9	130.6	154.0	166.7

¹ IMF (2021). Article IV Consultation: Vanuatu. See

<https://www.imf.org/en/Publications/CR/Issues/2021/09/14/Vanuatu-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-465820>

² UN DESA, World Economic Situation and Prospects, 2023.

<https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2023/>. It should be noted that the Government reported a growth rate for 2020 of -5 per cent while IMF estimated a growth rate of -5.4 per cent.

³ UN DESA, World Economic Situation and Prospects, 2023.

⁴ IMF (2021). World Economic Outlook. See <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

⁵ World Bank, WDI.

Balance of Payments (millions of US dollars)						
Current Account	-17.5	-55.7	79.6	215.5	60.6	1.9
Goods, Credit (Exports)	50.2	60.5	63.0	46.5	46.2	53.8
Goods, Debit (Imports)	320.6	316.6	302.7	270.6	253.7	295.4
Balance on Goods	-270.4	-256.1	-239.7	-224.0	-207.5	-241.5
Services, Credit (Exports)	308.8	285.0	317.4	326.2	95.4	35.0
Services, Debit (Imports)	164.2	196.1	216.4	218.2	175.9	200.5
Balance on Services	144.6	88.9	100.9	108.0	-80.6	-165.5
Balance on Goods and Services	-125.8	-167.1	-138.8	-116.1	-288.1	-407.1
Balance on Income	27.6	48.9	89.6	134.0	103.2	138.0
Balance on Current Transfers	80.8	62.5	128.7	197.6	245.5	271.0
Capital Account	48.4	49.2	42.8	43.6	76.0	66.5
Financial Account	-102.5	-90.7	43.6	103.1	36.7	8.0
Direct investment (net)	-47.6	-38.2	-35.4	-35.8	-22.6	-40.7
Portfolio investment (net)	-12.0	-28.5	-13.3	-0.9	1.1	0.8
Financial derivatives (other than reserves) and employee stock options
Other investment (net)	-76.4	-115.3	48.0	42.9	-11.1	-36.4
Reserve assets	33.4	91.4	44.2	96.9	69.3	84.2
Reserves (months of imports)	6.1	8.5	9.1	11.8	16.4	15.1

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2016-2020 data. Inflation is from UN DESA, WESP 2023. Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

LDC criteria and supplementary indicators

The latest three-year average (2019-2021) GNI per capita of Vanuatu is estimated as \$3,241, which is well above the graduation threshold of \$1,222 (see table 2). The Human Assets Index (HAI) score remained at 77.1, meeting the threshold level of 66 with a large margin.

The Economic and Environmental Vulnerability Index (EVI) score for 2023 is 47.2. It remains above the threshold value of 32 or below. While the country is highly vulnerable to the ever-present danger of natural disasters⁶, it is noteworthy that the national disaster planning framework has been improved substantially in recent years.⁷

⁶ Vanuatu is the world's most at-risk country for natural disasters, as measured by the UN World Risk Index.

⁷ IMF (2021). Article IV Consultation: Vanuatu

Table 2. Indicators for LDC identification, Vanuatu, 2019-2023

Year	GNI per capita	EVI	HAI
2019	2,880.9	43.1	76.9
2020	2,959.7	42.8	77.0
2021	3,134.8	42.8	77.1
2022	3,249.6	47.4	77.1
2023	3,241.0	47.2	77.3

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Table 3 presents some areas for particular attention. Tourism receipt fell sharply in 2020 while remittances rose. Domestic saving was cut in half or lower in 2020 and 2021, adding challenges to finance the investment. Undernourishment or women empowerment has not improved much.

Table 3. Selected supplementary graduation indicators, Vanuatu, 2017-2021.

Indicators	2017	2018	2019	2020	2021
Remittances (% of GDP)	3.0	3.9	8.0	10.9	
Tourism receipts as share of exports	83.6	85.4	79.1	47.3	
Gross domestic savings (% of GDP)	20.6	24.1	23.9	14.2	10.3
Prevalence of undernourishment	11.2	12.3	12.6	12.4	11.9
Women empowerment index	0.6	0.7	0.6	0.6	0.6

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

Vanuatu's statistical capacity, as measured by the World Bank's Statistical Performance Indicator, declined to 36.7 in 2020, which is much lower than the small state average of 57.9 and the LDC average of 57.5. The country received the lowest rankings for methodology, periodicity, and accessibility.

Smooth transition, national plan and country specific factors

At a national celebration ceremony in December 2020, the government of Vanuatu formally declared the country's graduation from the LDC category. The country's decision to graduate amidst the negative effects of the COVID-19 pandemic and natural calamities was hailed by development community leaders, including the UN Secretary-General.

The participation rate of Vanuatu in monitoring is 25 per cent - two annual reports submitted in 10 occasions (2014-2023), and one meeting out of two occasions (2022 and 2023).

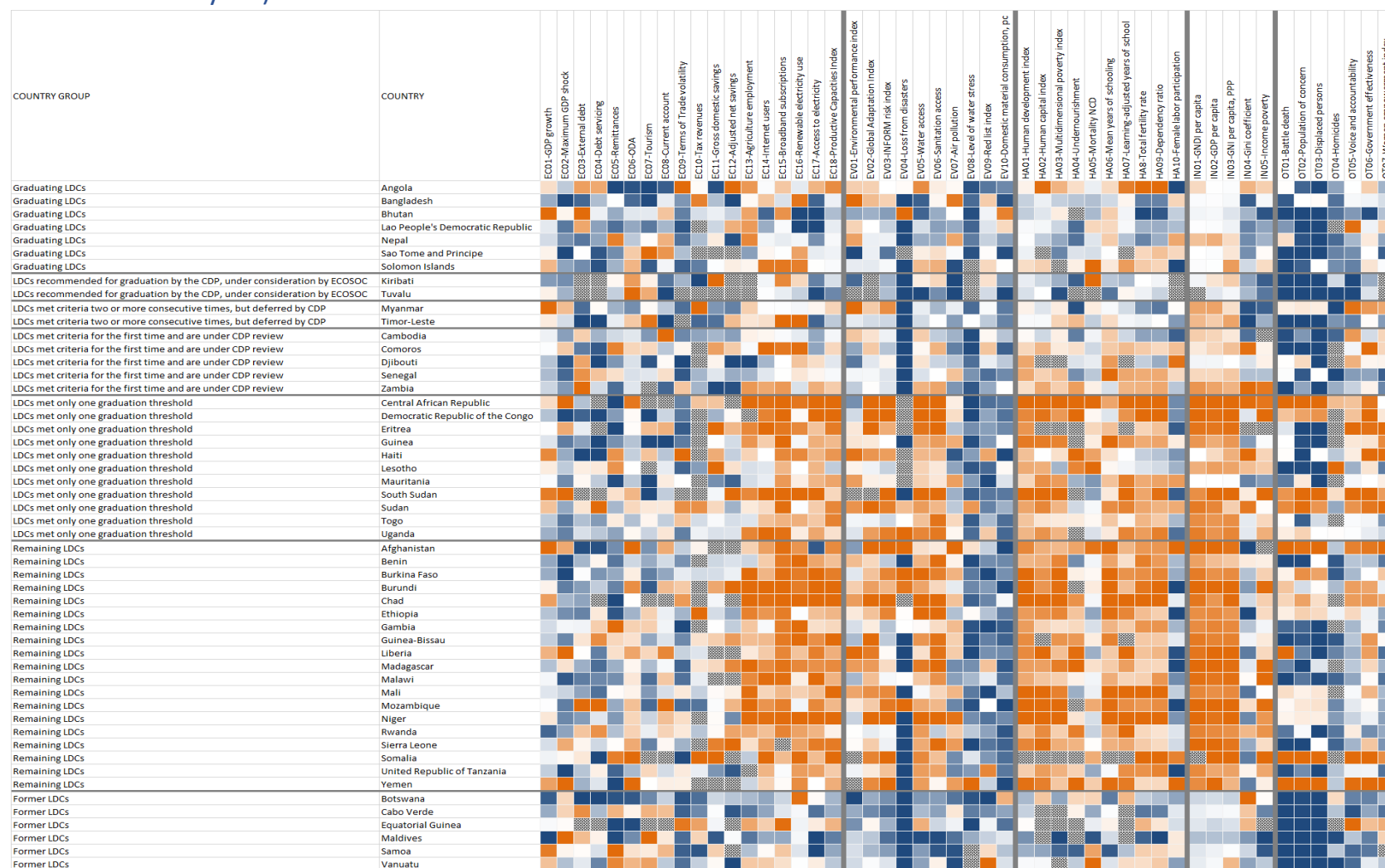
The recovery of the economy from the pandemic is the country's greatest challenge. In April 2020 and May 2021, the government gave financial assistance to families, businesses, and tourism-related jobs. Despite this, economic activity is drastically reduced owing to the prolonged border shutdown. Particularly impacted are tourism and allied industries, as well as infrastructure projects. In addition, Vanuatu planned to vaccinate 40 per cent of its population by June 2022 but met this target by August of the same year. Logistical obstacles and vaccination hesitancy remain a problem.

The Government submitted its annual report to the CDP on the implementation of the STS. The Government is making effort to implement the country's Smooth Transition Strategy, making sure that mitigation measures, in particular, related to trade and transition financing identified in the strategy for post-LDC graduation are implemented to advance the country's development trajectory.

Vanuatu continues to work with development partners to implement the country's development roadmap, the National Sustainable Development Plan, as COVID-19 has roll back decades of development progress including major natural disasters such as the Tropical Cyclone Harold.



Vanuatu also emphasized that the country still requires technical support from the UN system with mainstreaming of the STS effectively into the planning, budgeting and monitory processes of the Government as identified in the LDC service line offerings provided through iGRAD. For instance, further support with negotiations of major export markets for Vanuatu such as the beef market with Japan is sought.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year)



Legend:

- Indicator furthest below reference point, indicating most concern (5th percentile)
- Indicator furthest above reference point, indicating least concern (95th percentile)

 Reference point (e.g. 33th percentile)
 No data available