

# **HALF-YEAR ECONOMIC AND FISCAL UPDATE**


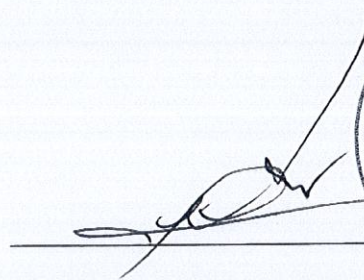
**31<sup>st</sup> July 2017**

**Ministry of Finance and Economic Management**




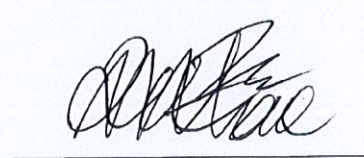
## Fiscal Responsibility

This Half Year Economic and Fiscal Update has been prepared in consistency with the Public Finance and Economic Management Act. The document has been prepared in accordance with the principles of responsible fiscal management as specified in the Act. The contents of the document were finalized on July 31<sup>st</sup> 2017.



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Minister of Finance and Economic Management  
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**Letlet August**

Director General  
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## OVERVIEW

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Global economic recovery has rebounded towards late 2016. Growth over 2017-18 is projected to be on track with Advanced and Emerging Developing Economies maintaining the lead.

The U.S. Federal Reserve has left its policy rate unchanged in its move to stabilise the U.S. economy while other major Central Banks' policy rates remained highly accommodative. Growth in the US economy has maintained momentum; making the US economy subjected to capital mobility thereby in search for higher return thereby destabilising Central Bank balance sheets across most vulnerable economies. The prolong excessive production of oil and raw materials due in part to strengthen external demand has greater fiscal implications for exporting countries and the leverage it has for oil and raw material importing countries.

Vanuatu's economy is now projected to expand 5.2 percent in 2017; 0.2 percentage points higher than that estimated at budget. The upward revision reflects the implementation of major publicly funded projects and other new multi-million private tourist projects, which have commenced in early 2017. There are expectations that economic spillovers will realise in 2018 pushing growth 3.8 percent before normalising in 2019.

The total government receipts for the first half (Jan-June 2017) compared to the same period last year showed a 0.4 percent increase. VAT collections receipts for the first half expanded by 22 percent compared to the similar period in 2016. Such noticeable boost in revenue collections hinted on the current rolling out of publicly funded projects.

**Table 1: Summary of Fiscal aggregates from 2014 - 17**

|   | <b>Actuals<br/>2014</b> | <b>Actuals<br/>2015</b> | <b>Actuals<br/>2016</b> | <b>Budget<br/>2017</b> | <b>Half Year<br/>2017</b> |
|---|-------------------------|-------------------------|-------------------------|------------------------|---------------------------|
| Revenue (VT mn)                         | 15,309                  | 17,036                  | 20,338                  | 18,354                 | 10,342                    |
| Expenses (VT mn)                        | 15,243                  | 15,765                  | 17,848                  | 19,364                 | 8,465                     |
| Acquisition of Non-Financial Asset (VT) | 240                     | 418                     | 597                     | 299                    | 190                       |
| <b>Net Lending / (Borrowing (VT))</b>   | <b>(173.3)</b>          | <b>851.9</b>            | <b>1,893.4</b>          | <b>(1,309.8)</b>       | <b>1,688.3</b>            |
| Per cent of GDP                         | -0.3                    | 1.4                     | 2.9                     | -1.9                   | 2.5                       |

Source: Department of Finance and Treasury

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## **World Economic Outlook**

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Global growth picked up and has maintained momentum since 2016, reaffirming the IMF's earlier growth projections of higher global growth in 2017 and 2018. In its April 2017 WEO, IMF estimated that global economy would expand by 3.5 percent in 2017, up from 3.1 percent last year and to further accelerate by 3.6 percent in 2018. The acceleration in growth is expected to be broad based across most Advanced, emerging and low-income economies, building on gains seen in both manufacturing and trade.

The positive growth outlook in 2017 follows good economic news for Europe and Asia, as well as robust expectation for higher growth this year in the US.

Despite positive signs of recovery, many economies remain vulnerable to growth exacerbated by the current Brexit and the US position on climate change and international trades. Furthermore, affluent countries in the Middle East, Africa and Latin America have continued to experience strong impacts of the excess supply of commodities and oil pushing down global prices. This has generated severe fiscal pressures destabilising governments' redistribution of income through social benefits and infrastructure spending. Meanwhile, this has mitigated the upward fiscal pressure on global prices for fuel importing.

The current pace in global recovery remains fragile given uncertainties in the global markets especially on macroeconomic fundamentals emerging from Advanced Europe and the US. The pace of the global manufacturing industry have continued to remain below pre-crisis level following new policy directions from major players including China & India. Global financial institutions are desperately innovating; with more financial derivatives available in the global financial markets. That has allowed Commercial Banks around the world the opportunity to reassess their investment portfolio especially when fix-term investments are no longer attractive given the current global accommodative monetary stance. This is important especially when Government Treasury bills are becoming more attractive for Commercial Banks in order to have a well balance and diversified portfolio so to improve their balance sheets. Meanwhile, external demand has rebounded with job creation picking up. However, current uncertainties in global macroeconomic sphere remain imbalance with US main Fed Reserve policy raise deviating away from the current low rates by most Euro economies signalling the pace of recovery that is uneven. The recent 'One Belt One Road' China policy initiative could trigger new direction in global growths especially with China's heavy presence in developing countries.

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## **VANUATU ECONOMIC OUTLOOK (VEO) UPDATE**

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### **REAL SECTOR UPDATE**

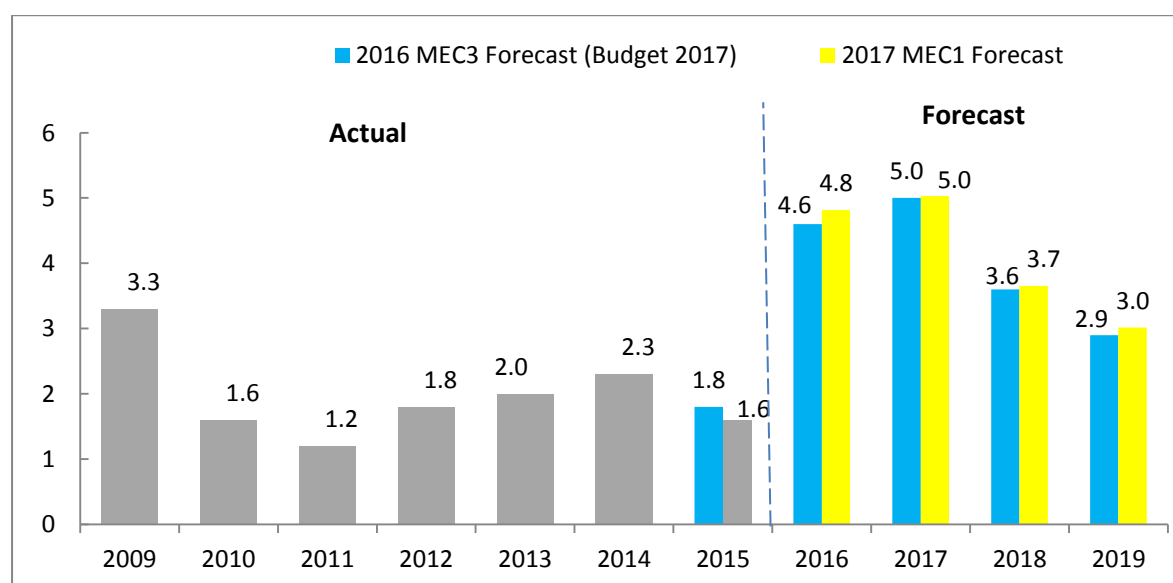
The continue effort of construction recovery after TC PAM is fully operationalized and likely to continue through 2018. Economic growth has strengthened after the TC PAM impact on Agriculture, Industry and Service sector in 2015. The Vanuatu National Statistics office (VNSO) has recently released the preliminary Gross Domestic Product (GDP) with a soft landing of the Vanuatu economy's gross domestic product (GDP) at 1.6 percent in 2015. Growth in 2016 was estimated to



have registered 4.8 percent in growth before accelerating at 5.0 percent in 2017. The forecasted acceleration is to be driven by the industry sector, particularly public construction. Investments have picked up, reflecting the government plans to rebuild its infrastructure. As economic conditions improved, there are expectations of spillovers to non-financial firms that are well placed to increase investment to boost capacity and increased competitiveness, given their large financial buffers and supportive financial conditions. Consumption growth is likely to remain solid, while housing investments should normalize. With the current pace of economic expansion, underlying inflation is projected to rise beyond 3.5 percent in 2017.

Fiscal policy will remain expansionary with the continued support from donor partners on public funded projects over the post-Pam reconstruction period. The general government fiscal balance is expected to breakeven, despite challenges in forecasted revenue collection and anticipated increases in unplanned expenditures through the June supplementary. The current expansionary fiscal policy stance is expected to raise domestic demand and boost growth going forward. With debt rising gradually to finance public investments, it is necessary for Vanuatu's authorities to start thinking deeply on the sustainability of increasing spending through expanding its current tax base in 2018. The government launched "Vanuatu 2030 – People's Plan" early in 2017 with the vision for stable, sustainable and prosperous Vanuatu have adopted a mentality for diversification under its three main pillars – Society, Environment and Economic to ensure that growth prospects are diversified, resilient, sustainable and inclusive.

**Chart 1: Real Gross Domestic Product (in percent change)**



Source: National Statistics Office & Macroeconomic Committee (MEC) Estimates

## AGGREGATE SUPPLY

The expected boom in construction activity soon after the destruction caused by TC Pam is expected to drive economic growth going forward. Output was deeply affected following the disruption to the supply chain and the displacement of the factors of production. However, the timely assistance and intervention of the Government together with its development partners have slowly restore the supply links that connect trade of goods and services.

## Agriculture

Agriculture, which comprises roughly 21 percent of GDP was projected to rebound 4.7 percent in 2017. Animal and crop production have rebounded strongly in 2017 supported with the Government efforts towards the productive sector. The upbeat in this sector demonstrates the resilience of the domestic economy especially with majority of the population engaging in subsistence farming. This has boosted local production to an average 5.0 percent over the first half of 2017 bolstering overall aggregate supply contribution of 1.0 percentage point. However, the existence of excess global production combined with the shift in policy directions, particularly in trade and the current accommodative monetary policy stance have impacted Vanuatu's goods export contracting 23.5 percent. Given the uneven trade conditions with excess consumption over production, goods import expanded 43.2 percent this period in order to stabilise local price conditions.

## Construction

Construction will remain the lifeblood of the domestic economy coincide with the Government policy and direction to 'rebuild better' and to address the current infrastructure bottlenecks that would enable an environment that is conducive to private sector lead growth and in line with the 'People's plan'. With developments in the construction sector projected to expand 21.9 percent this year, both the mining and quarrying and electricity and water supply sectors are projected to respond in favour with 50.0 percent and 4.7 percent growth respectively this year. This is not coincidence, as you would expect these subsectors to move uniformly with construction activity. Together the industry sector which weighs heavily on publicly funded construction, is projected to account for 13.5 percent of GDP in 2017 and an average 6.3 percent of GDP over the medium term. Together the industry sector is projected to contribute 1.9 percentage points to overall aggregate supply currently projected at 5.2 percent. Of the total industry contribution to aggregate supply, construction will contribute 1.7 percentage points, confirming its dominance to growth and the highest growth contributor in 2017.

## Tourism

Tourism activity, proxy by transport and accommodation and food services is projected to expand for two consecutive years since 2016. While both industries formed part of the overall Services sector with combined composition of 8.0 percent of GDP, hotels and accommodation activity has been quiet post TC PAM. With global growth regaining momentum supported by the emerging and developing Asia, concentration has been to the accommodation and real estate sector, with the emerging new source of investors originating from Asia. This is supported with the increasing inflows of foreign direct investments in searched for high-yield investments particularly in the accommodation and real estate sector. Meanwhile air arrivals responded with a 23.7 percent surge aligning with a 21.7 percent increase in arrivals from Asia. This new trend is expected to populate activity in the accommodation and real estate sectors with each to contribute 0.1 & 0.2 percentage points to aggregate supply. There are expectations for spillover into the financial and insurance sectors to accommodate related financing requirements with finance and insurance projecting a 0.3 percentage point contribution to overall growth in 2017. With the increasing activity in the construction sector, there will be increasing demand for professionals, scientific, technical and administrative personal (particularly engineers, technical advisors) due to current in-country shortage, allowing for a 12.5 percent expansion in this sector with a total added value of 0.3 percentage point to overall growth in 2017.

The positive growth was supported by the recent June economic survey on forward bookings and room occupancy rate over the first half of 2017. The completion of the Luganville wharf will surely increase the current rate of cruise ship numbers in the northern town. Following recent developments, the outlook for both air and cruise arrivals are to remain solid this year and over the medium term.

**Table 2: Major Economic Indicators (in percent change)**

|  | <i>Actual</i> |            |            |            |            |            |            | <i>Estimate</i> | <i>Forecast</i> |            |            |
|--|---------------|------------|------------|------------|------------|------------|------------|-----------------|-----------------|------------|------------|
|  | 2009          | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016            | 2017            | 2018       | 2019       |
| Agriculture, fishing & Forestry              | 0.7           | 4.8        | 6.1        | 2.2        | 4.8        | 4.2        | -1.3       | 4.9             | 4.7             | 3.2        | 3.0        |
| Industry                                     | 27.6          | 12.6       | -19.4      | -22.1      | 9.7        | 3.5        | 40.2       | 23.9            | 13.5            | 8.0        | 4.6        |
| Services                                     | 3.3           | 3.0        | 3.2        | 4.4        | 0.1        | 2.0        | -2.8       | 3.1             | 4.5             | 3.0        | 2.5        |
| <b>Real GDP constant price (2006 prices)</b> | <b>3.3</b>    | <b>1.6</b> | <b>1.2</b> | <b>1.8</b> | <b>2.0</b> | <b>2.3</b> | <b>1.6</b> | <b>4.8</b>      | <b>5.0</b>      | <b>3.7</b> | <b>3.0</b> |
| GDP Deflator                                 | 2.3           | 2.6        | 3.1        | 0.4        | 2.7        | 2.5        | 4.0        | 2.1             | 1.7             | 4.7        | 4.5        |
| Nominal GDP (current prices)                 | 5.7           | 4.3        | 4.4        | 2.2        | 4.7        | 4.9        | 5.7        | 8.4             | 9.3             | 8.6        | 8.9        |
| <b>World growth</b>                          | <b>-0.1</b>   | <b>5.4</b> | <b>4.2</b> | <b>3.5</b> | <b>3.4</b> | <b>3.5</b> | <b>3.4</b> | <b>3.1</b>      | <b>3.5</b>      | <b>3.6</b> | <b>3.7</b> |

Source: IMF WEO 2017, National Statistics Office & Macroeconomic Committee (MEC) Estimates

## AGGREGATE DEMAND

Current value consumption is projected to contract by 3.1 percent this year following rising activities in the construction sector, scaling up inflation expectation to 3.8 percent pushing real consumption to a hard landing in 2017. Meanwhile public investments will expand 11.3 percent in 2017 following a strong rebound experienced in 2016 supported by a projected 5.6 percent increase in private sector real investments. However, with the influx of construction materials to be sourced externally, most of the projected growth will be leaked out in the form of imports, scaling down projected growth in net export by 3.3 percent leaving total domestic demand sliding 0.9 percent in projected real growth in 2017. The leakage in projected imports combined with the decline in consumption will contract economic growth by 7.8 percentage points. Nonetheless, this will be partly offset by some 4.5 percentage points increased in fixed investments pushing aggregate demand to a comfortable 5.2 percent in 2017.

### Public investment

Developments in public investments over the first half of 2017 have been driven by construction of publicly funded projects. The combined financial efforts pursued by the Government and NGOs combined with financial assistance from donor partners in restoring Vanuatu infrastructures was in excess of VT 53 billion. Most of these publicly funded projects are projected to complete at the end of 2017 with growth contribution of 2.1 percentage points. In its April meeting, the macroeconomic committee upgraded its annual growth forecast for public investment to 11.3 percent this year after an estimated surge of 1,129 percent recorded in 2016 when most projects have commenced. At the current momentum, public investment is forecasted to register a healthy 18.5 percent growth in 2018; contributing 3.1 percentage points to national growth. However, with most construction materials imported, there are growth implications through outflows in spending. This is depicted through a projected import growth of 2.2 percent in 2017 before rising to a marginal 2.4 percent in 2018.

### Private investment

Private investment is expected to pick up at 5.6 percent this year; following a slightly slower pace than the estimated 9.4 percent experienced in 2016. With necessary accommodative economic policy by both monetary and fiscal authorities to immediately revive this sector, a turnaround in growth is forecasted over the medium term averaging at 6.8 percent between 2017-19. The acceleration in private investments is highly expected, as recovery kicks in with direct contribution to aggregate demand of 2.4 percentage points this year and a further 3.0 percentage points the following year

before surging to 3.5 percentage point in 2019.

### **Total Demand**

Total domestic demand is projected to ease off by 0.9 percent in 2017; following the projected hard landing of 25.2 percent in public investments. The easing growth in public investment in 2017 stemmed from the high concentration in commencement of major construction projects in 2016; while majority of constructions are ongoing few others are expected to complete in 2017. With the volume of investments projected to accelerate; consumption is likely to absorb most economic spillovers as employment rises and so valued added taxes. With overall total domestic demand descending from a high growth level in 2016; compared to its pace in 2017, growth will experience a moderate pace of 3.3 percent in 2018 pushing combined growth in aggregate demand by 4.6 percentage points however, short-lived by import leakage of 2.0 percentage points, leaving a net growth of 3.8 percent in 2018.

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## **FISCAL UPDATE 2017**

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### **Revenue**

The Government revenue at the end of June recorded an amount of VT 10,342.5 million. This represents 56.4 percent of the 2017 budget target (VT 18,354.0 million) and is almost similar (0.4 percent more) to the VT 10,298.6 million revenue figure recorded at the end of June 2016. To date, the major Government revenue streams includes:

- *VAT, collecting VT 3,302.7 million, 51.2 percent of the 2017 budget target and 22.0 percent above VT 2,707.8 million collected at the end of June 2016;*
- *Import Duties, collecting VT 1,582.0 million, 54.5 percent of the 2017 budget target and 11.2 percent above Import Duties collection (VT 1,423.3 million) during the same period last year;*
- *Excise, collecting VT 1,209.0 million, 59.3 percent of the 2017 budget target and 11.2 percent above Excise collection in 2016 (VT 1,087.2 million);*
- *Vanuatu Development Support Program (VDSP) and Vanuatu Contribution Programme (VCP), together collected VT 837.8 million by the end of June. In 2017, VERP, VDSP and VCP<sup>1</sup> have collectively brought in VT 1,305.5 million; which is 64.4 percent of their combined budget target (VT 2,028.5 million).*

The Government received VT 1,494.9 million worth of donor funding from its development partners by the end of June 2017 against a budget target of VT 8,069.3 million. To date, the major contributing donor partners include World Bank (VT 362.6 million), Australia (VT 292.5 million), UNDP (VT 173.4 million) and New Zealand (VT 125.4 million).

### **Expenditure**

During the past six months, the Government has spent VT 8,464.7 million, representing 43.7 percent of the budget target (VT 19,364.3 million) and 7.5 percent above the level of spending (VT 7,871.4 million) during the same period in 2016. The increase was partially due to the implementation of 2017 the supplementary budget of VT 1,828.3 million.

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<sup>1</sup> Vanuatu Economic Rehabilitation Programme (VERP) was introduced in 2015 aimed at raising revenue post Cyclone Pam through fast-track citizenship programme. VERP was phased out in March 2017 to be replaced by similar programmes - Vanuatu Development Support Programme (VDSP) and Vanuatu Contribution Programme (VCP).



The major over-spending items to date for the Government include:

- Contract Wages recorded VT 70.8 million against a budget of VT 2.0 million.
- Shift Allowances recorded VT 3.0 million against a budget of VT 340,860.
- Acting Allowances recorded VT 78.6 million against a budget of VT 25.6 million.
- Vehicle Servicing recorded VT 3.4 million against a budget of VT 2.2 million.
- Vehicle-Additional Vehicle recorded VT 13.3 million against a budget of VT 12.0 million
- Allowance-Scholarships recorded VT 274.5 million against a budget of VT 263.4 million
- Overtime Wages recorded VT 41.0 million against a budget of VT 43.6 million.
- Official Entertainment recorded VT 47.2 million against a budget of VT 52.2 million.
- Subsistence Allowances recorded VT 175.5 against a budget of VT 204.5 million.
- M.P. Allocation Allowances recorded VT 86.6 million against a budget of VT 104.0 million.
- Responsibility Allowances recorded VT 14.3 million against a budget of VT 17.4 million.
- Court Cost recorded VT 5.2 million against a budget of VT 6.4 million.
- Building Repairs and Maintenance recorded VT 46.3 million against a budget target of VT 64.3 million.
- Fees-Scholarship recorded VT 151.7 million a budget of VT 212.9 million.
- International Travel recorded VT 79.8 million against a budget target of VT 130.6 million.
- Termination Payment recorded VT 116.5 million against a budget of VT 197.4 million.
- Medicines Suppliers recorded VT 104.7 million against a budget of VT 184.7 million.

Government recognises the need to curb consistent over-spending on certain items. An Expenditure Review Committee (ERC) has been constituted by the Government to identify areas and suggest recommendations where reforms can be introduced to reduce cost of providing government services. Some of the suggested recommendations include:

- *Possible outsourcing entities; for example Emergency services*
- *Decentralization of Services*
- *Using the full capacity of ICT*
- *Review Government Machinery-(ERC to work with Government Machinery)*

Detailed recommendations will be outlined as soon as the Committee finalises a draft expenditure review matrix and receives Government approval for its implementation.

Donor financing has recorded an expenditure of VT 2,211.4 million at the end of June 2017. This represents 27.4 percent of the budget target and 7.9 percent below VT 2,399.3 million recorded during the same period last year.

## **Financing**

The net operating balance for government operations, excluding donor funds, at the end of June was a surplus of VT 1,877.7 million. This is a 22.6 percent decline from the net operating surplus (VT 2427.3 million) during the same period in 2016. Due to rolling out of the 2017 Supplementary budget of VT 1,828.3 million in the month of June, the net operating balance previously shown for the

government operations at budget 2017 has now changed into a deficit of VT 1,010.3 million. Although the revenue performance is robust and revised revenue forecasts<sup>2</sup> are expected to yield more than budgeted revenue; in addition to greater concerted efforts of Government's collection of outstanding debt; even so, the deficit reflects an imminent need for expanding Government's revenue base and implementing revenue reforms for improved fiscal performance.

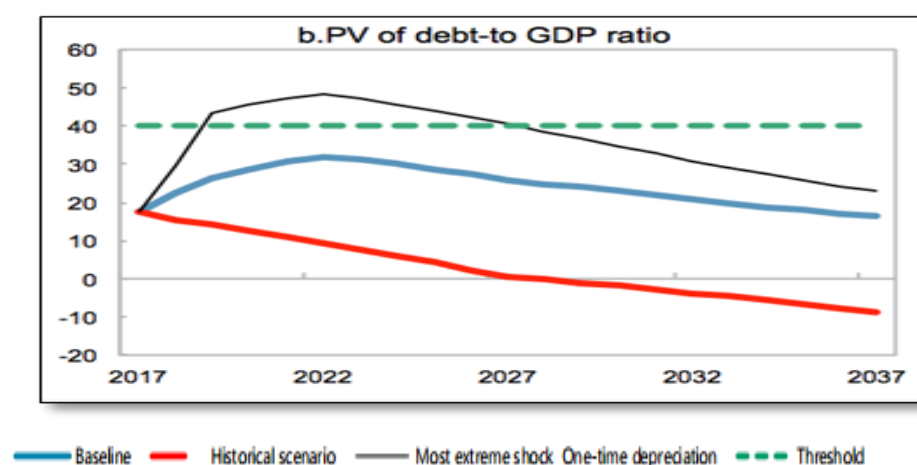
Over the year to June, the Government has issued VT 509.4 million worth of Government bonds and paid off VT 716.6 million. Meanwhile, external amortisation amounted to VT271.6 million over the first six months of 2017.

## Public Debt

The first Vanuatu Debt Management Strategy (2015-17) allowed for Vanuatu to fund for its recovery and infrastructure projects prudently. It now provides a guide for decision makers to borrow for important projects that can also generate revenue to also pay off its debt when due. Major milestones have been achieved this half-year concerning the major road and wharf construction projects in Tanna, Malekula, Port Vila and Luganville. Achievements include the completion of the Luganville International Wharf project by the Shanghai Construction Group. Its handing over to the Government is expected in August 2017. The Road rehabilitation project led by CCECC has progressed immensely also, around 70 percent of road works & culverts have been completed for example also in Tanna 90 percent of bridges has been completed. More drawdowns are expected for these projects in the second half of the year.

Vanuatu's risk of debt distress remains "moderate". This was increased from a "low risk in 2013" after Cyclone Pam in 2015. In the baseline scenario (blue), external and public debt levels are projected to rise steeply over the next few years and peak at substantially higher levels before starting to decline. In order to set public debt ratios on a downward trajectory while making room for priority social and developmental expenditures, the Government must be prudent in its borrowing strategies and rebuild fiscal buffers over the medium term through strengthening public finance management, reprioritizing spending, and mobilizing new revenue resources.

**Chart 2:** Present Value of Debt to GDP



Most of the major infrastructure projects are both the grant and loan funded. These new loans are still on their grace periods. The first loan repayments for a project will be due later in 2019. The

<sup>2</sup> The revised revenue forecast would be reflected in Fiscal Report 2017.

government is already preparing essential new comprehensive revenue initiatives and the strengthening of state owned enterprises (SOE) to assist in sustaining the growing social and productive sector including debt repayments when due. Vanuatu continues to be the leader in the Pacific region in terms of its debt levels and prudent fiscal management. However, more emphasis will now be to see grant funding for essential infrastructure projects that will increase economic productivity. Negotiations also on *refinancing* of some existing huge infrastructure loans are also ongoing and these will result in significantly lower external debt repayments with more funds provided for other important sectors such as the social and productive sectors.

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## MONETARY UPDATE

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### Money Supply

Banking sector activities continue to remain weak over the first five months of 2017. Nevertheless, aggregated banking industry capital and liquidity holdings are maintained well above the regulatory minimum requirement suggesting room for economic growth and investment supported by sound monetary and economic stability. At the end of May 2017, money supply (M2) reached VT 74,061.6 million. Money growth was driven by growth in both net foreign assets (NFA) and domestic credit. NFAs continued to remain at elevated levels since mid-2015 and for the first five months of 2017. The accumulation of NFAs reflected the flow of funds for the TC PAM reconstruction and public donor work-in-progress projects throughout the country. Nevertheless, there are net sales of foreign currencies from Other Depository Corporations (ODCs).

Domestic credit growth remained subdued since 2015. The year-on-year private sector credit growth eased off at 1.7 percent at the end of May 2017. Meanwhile, growth in M2 was mostly driven by narrow money during the first 5 months of 2017. The growth in narrow money was mirrored in currency in circulation growth trend and is mainly associated with the rise in consumption level. Increase in consumption level is supported by continuous increase in government spending as evidenced by growth in net claims on central government vis-à-vis the banking system. In contrast, quasi-money decreased in May 2017, implying that residents are converting term deposits upon maturity to transferrable deposits for immediate consumption and other activities.

### Interest rate

Interest rate offered by ODCs eased slightly in May 2017 relative to previous years' rates. Nonetheless, weighted average interest rate on deposits remained lower than weighted average interest rate on loans, hence the widening of interest rate spread from 8.2 percent in May 2016 to 8.4 percent in May 2017. The RBV continued to maintain an accommodative policy stance keeping policy interest rate at 2.9 percent as well as statutory deposit requirement at 5.0 percent and liquidity asset requirements ratio also at 5.0 percent.

### Inflation

The annual Consumer Price Index (CPI) inflation remained at stable levels at an average of 2.0 percent over the last three consecutive quarters. During the first quarter of 2017 the inflation rate was at 2.1 percent compared to 2.2 percent in the fourth quarter of 2016. From the CPI groupings, inflation was driven by higher prices of food, education, transport and household supplies offset by decline in prices for communication, clothing and footwear, miscellaneous, housing and utilities and recreation. Recent price developments reflected the increased in food prices (both imported and domestic) due to higher commodity prices, as well as recent appreciation of the AUD, NZD and USD against the Vatu.



These currencies appreciation translated into slightly higher import prices and the lagged impact of increased domestic fuel prices despite fall in international fuel prices in the medium-term. Nevertheless, Vanuatu's underlying measure of inflation is still at comfortably low levels which recorded -0.7 percent in the first quarter of 2017. In the medium term, annual inflation is projected to rise above 4.0 percent for the year-ended 2017. The upside risk to this projection reflects the expected inflationary pressures sourced from increased demand pressures relating to the work-in-progress of a number of major donor-funded infrastructure and development projects (towards 2018), while on the other hand, the downside risk reflects the negative impact of weakening international fuel prices on domestic prices.

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## **EXTERNAL SECTOR UPDATE**

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The overall balance of payments (BOP) development produced a deficit of VT 279 million. This is driven by decline in official foreign reserves. The current account deficit deteriorated by 75.0 percent due to significant fall in income received from abroad compared to lower reduction in payments made abroad. The trade in goods deficit balance eased over the year to June as demand of imports declined following seasonal trend. The trade in services balance, which is usually in surplus, contracted following a 17.0 percent decline in tourism earnings. The secondary income balance which represents current transfers, plunged by 26 percent as current transfer inflows contracted while current transfer payments increased over the period, as a result of increased personal remittances. The capital account, which comprises mainly donor grants for capital projects, remained in surplus reflecting donor grant inflows for current projects as well as expected investment projects in the short to medium term.

Official reserves remained resilient and increasing further over the first six months of 2017. At the end of June 2017, official reserves remained well above the threshold of 4 months of import cover reaching an estimated 9.4 months of imports.

### **Exchange Rate**

The movements of Vatu vis-à-vis the major currencies of trading partners reflected developments in the economic and financial conditions of our major trading partners.

Vanuatu's real effective exchange rate appreciated over the first quarter of 2017 reflecting a stronger Vatu and higher price performance compared to its major trading partners. The stronger Vatu caused Vanuatu's products and services to be non-competitive thus decline in overall volume of exports of goods and services. Most major currencies have experienced swing against the Vatu while others major trading partners currencies weaken against the Vatu; largely reflecting developments in the US Federal Reserve monetary policy stance.

The RBV continues to intervene in the financial markets by appropriately aligning the Vatu against its major currency partners and pursuing a stable nominal effective exchange rate in support of the current level of healthy foreign reserves in the banking system. The bilateral exchange rates of VATU against its trading partners' currencies are forecasted to stabilize over time, with the exception of the USD, that is expected to appreciate slightly and influenced by market expectations of another interest rate hike before the end of 2017.

**Table 3** Statement of government operations excluding donors

| STATEMENT OF GOVERNMENT OPERATIONS EXCLUDING DONORS           |  |             |               |     |         |          |         |         |         |         |
|---|--|-------------|---------------|-----|---------|----------|---------|---------|---------|---------|
| GFS Code  | GFS Description                                | Budget 2017 | Total (VT mn) | %   | January | February | March   | April   | May     | June    |
| TRANSACTIONS AFFECTING NET WORTH:                             |  |             |               |     |         |          |         |         |         |         |
| A1  | Revenue  | 18,354.0    | 10,342.5      | 56% | 2,308.8 | 1,648.0  | 1,601.9 | 1,448.6 | 1,521.3 | 1,813.9 |
| A11   | Taxes  | 14,244.0    | 8,040.4       | 56% | 1,867.7 | 1,307.0  | 1,237.8 | 1,071.1 | 1,167.2 | 1,389.7 |
| A111  | Taxes on income, profits, and capital gains    | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A112  | Taxes on payroll & workforce                   | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A113  | Taxes on property                              | 471.2       | 234.5         | 50% | 24.6    | 55.8     | 46.2    | 33.0    | 30.5    | 44.5    |
| A114  | Taxes on goods & services                      | 10,867.7    | 6,224.0       | 57% | 1,608.6 | 988.4    | 906.7   | 800.9   | 880.5   | 1,038.8 |
|   | of which                                       |             |               |     |         |          |         |         |         |         |
|   | Value-Added Tax                                | 6,451.3     | 3,302.7       | 51% | 704.8   | 518.1    | 522.7   | 488.0   | 508.0   | 561.2   |
|   | Excise   | 2,039.7     | 1,209.0       | 59% | 208.2   | 209.5    | 202.3   | 159.2   | 165.1   | 264.7   |
| A115  | Taxes on international trade & transactions    | 2,905.1     | 1,582.0       | 54% | 234.5   | 262.8    | 284.9   | 237.2   | 256.2   | 306.4   |
| A116  | Other taxes                                    | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A12   | Social contributions                           | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A13   | Grants   | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A14   | Other revenue                                  | 4,110.0     | 2,302.1       | 56% | 441.1   | 341.0    | 364.1   | 377.5   | 354.1   | 424.3   |
| A2  | Expense  | 19,364.3    | 8,464.7       | 44% | 1,290.5 | 1,457.9  | 1,388.4 | 1,554.4 | 1,248.6 | 1,525.0 |
| A21   | Compensation of employees                      | 9,956.5     | 4,456.6       | 45% | 640.9   | 660.6    | 692.3   | 704.5   | 727.0   | 1,031.3 |
| A22   | Use of goods and services                      | 5,702.9     | 1,911.6       | 34% | 319.7   | 284.6    | 403.7   | 287.0   | 270.4   | 346.2   |
| A23   | Consumption of fixed capital                   | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A24   | Interest                                       | 720.4       | 429.7         | 60% | 23.2    | 66.7     | 204.3   | 49.3    | 6.2     | 80.0    |
| A25   | Subsidies                                      | -           | 0.1           | 0%  | 0.1     | -        | -       | 0.1     | -       | -       |
| A26   | Grants   | 1,828.0     | 744.1         | 41% | 121.7   | 334.9    | 76.0    | 122.5   | 64.6    | 24.5    |
| A27   | Social benefits                                | 227.5       | 116.5         | 51% | 13.8    | 52.3     | 6.9     | 12.4    | 9.4     | 21.6    |
| A28   | Other expense                                  | 929.0       | 806.1         | 87% | 171.1   | 58.8     | 5.2     | 378.6   | 171.0   | 21.3    |
| GOB   | Gross operating balance (1-2+23+NOBz)          | (1,010.3)   | 1,877.8       |     | 1,018.4 | 190.1    | 213.5   | (105.8) | 272.7   | 289.0   |
| NOB   | Net operating balance (1-2+NOBz) <sup>cl</sup> | (1,010.3)   | 1,877.8       |     | 1,018.4 | 190.1    | 213.5   | (105.8) | 272.7   | 289.0   |
|   | % of GDP                                       |             | 2.4%          |     | 1.3%    | 0.2%     | 0.3%    | -0.1%   | 0.3%    | 0.4%    |
| TRANSACTIONS IN NONFINANCIAL ASSETS:                          |  |             |               |     |         |          |         |         |         |         |
| A31   | Net Acquisition of Nonfinancial Assets         | 299.4       | 189.5         | 63% | 37.1    | 26.2     | 15.6    | 18.4    | 28.0    | 64.3    |
| A311  | Fixed assets                                   | 299.41      | 189.5         | 63% | 37.1    | 26.2     | 15.6    | 18.4    | 28.0    | 64.3    |
| A312  | Change in inventories                          | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A313  | Valuables                                      | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A314  | Nonproduced assets                             | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| NLB   | Net lending / borrowing (1-2+NOBz-31)          | (1,309.8)   | 1,688.3       |     | 981.3   | 163.9    | 197.9   | (124.2) | 244.7   | 224.7   |
| TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING): |  |             |               |     |         |          |         |         |         |         |
| A32   | Net acquisition of financial assets            | (1,828.3)   | 1,209.4       | 0%  | 981.3   | 162.0    | (469.2) | 104.4   | 216.1   | 214.8   |
| A321  | Domestic                                       | (1,828.3)   | 1,209.4       | 0%  | 981.3   | 162.0    | (469.2) | 104.4   | 216.1   | 214.8   |
| A322  | Foreign  | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A323  | Monetary gold and SDRs                         | -           | -             | -   | -       | -        | -       | -       | -       | -       |
| A33   | Net incurrence of liabilities                  | (518.5)     | (478.8)       | 92% | -       | (1.9)    | (667.1) | 228.6   | (28.6)  | (9.9)   |
| A331  | Domestic                                       | -           | (207.3)       |     | -       | -        | (455.1) | 247.8   | -       | -       |
| A332  | Foreign  | (518.5)     | (271.6)       | 0.5 | -       | (1.9)    | (212.0) | (19.2)  | (28.6)  | (9.9)   |

**Table 4:** Statement of government operation, which are funded by donors through the Central Treasury

| STATEMENT OF GOVERNMENT OPERATIONS WHICH ARE FUNDED BY DONORS THROUGH<br>THE CENTRAL TREASURY ACCOUNT |   |                   |                  |                |                |                |                |                |                |                |
|---|---|-------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| GFS Code  | GFS Description                                       | Budget 2017       | Total (VT mn)    | %              | January        | February       | March          | April          | May            | June           |
| <b>TRANSACTIONS AFFECTING NET WORTH:</b>  |   |                   |                  |                |                |                |                |                |                |                |
| <b>A1</b>   | <b>Revenue</b>  | <b>8,069.3</b>    | <b>1,494.9</b>   | <b>19%</b>     | <b>78.9</b>    | <b>488.0</b>   | <b>104.3</b>   | <b>268.6</b>   | <b>259.8</b>   | <b>295.3</b>   |
| A11   | Taxes   | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A111  | Taxes on income, profits, and capital gains           | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A112  | Taxes on payroll & workforce                          | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A113  | Taxes on property                                     | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A114  | Taxes on goods & services                             | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
|   | of which  |                   |                  |                |                |                |                |                |                |                |
|   | Value-Added Tax                                       | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
|   | Excise  | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A115  | Taxes on international trade & transactions           | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A116  | Other taxes   | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A12   | Social contributions                                  | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A13   | Grants  | 8,069.3           | 1,494.9          | 19%            | 78.9           | 488.0          | 104.3          | 268.6          | 259.8          | 295.3          |
| A14   | Other revenue   | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| <b>A2</b>   | <b>Expense</b>  | <b>8,069.3</b>    | <b>2,211.4</b>   | <b>27%</b>     | <b>474.1</b>   | <b>385.1</b>   | <b>297.1</b>   | <b>201.0</b>   | <b>490.6</b>   | <b>363.4</b>   |
| A21   | Compensation of employees                             | 675.1             | 225.4            | 33%            | 39.1           | 27.3           | 32.9           | 34.5           | 33.0           | 58.7           |
| A22   | Use of goods and services                             | 5,669.8           | 1,032.8          | 18%            | 75.3           | 252.1          | 145.6          | 122.7          | 290.8          | 146.4          |
| A23   | Consumption of fixed capital                          | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A24   | Interest  | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A25   | Subsidies   | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A26   | Grants  | 1,465.9           | 218.5            | 15%            | -              | 82.1           | 25.4           | 15.3           | -              | 95.6           |
| A27   | Social benefits                                       | 112.4             | 734.4            | 653%           | 359.7          | 23.6           | 93.2           | 28.3           | 166.9          | 62.8           |
| A28   | Other expense   | 146.2             | 0.3              | 0%             | 0.1            | -              | -              | 0.2            | -              | -              |
| <b>GOB</b>  | <b>Gross operating balance (1-2+23+NOBz)</b>          | <b>-</b>          | <b>(716.5)</b>   | <b>(395.2)</b> | <b>102.8</b>   | <b>(192.8)</b> | <b>67.6</b>    | <b>(230.8)</b> | <b>(68.1)</b>  | <b>(68.1)</b>  |
| <b>NOB</b>  | <b>Net operating balance (1-2+NOBz) <sup>cl</sup></b> | <b>-</b>          | <b>(716.5)</b>   | <b>(395.2)</b> | <b>102.8</b>   | <b>(192.8)</b> | <b>67.6</b>    | <b>(230.8)</b> | <b>(68.1)</b>  | <b>(68.1)</b>  |
|   |   | -                 | -0.9%            | -0.5%          | 0.1%           | -0.2%          | 0.1%           | -0.3%          | -0.1%          | -0.1%          |
| <b>TRANSACTIONS IN NONFINANCIAL ASSETS:</b>   |   |                   |                  |                |                |                |                |                |                |                |
| <b>A31</b>  | <b>Net Acquisition of Nonfinancial Assets</b>         | <b>15,654.8</b>   | <b>383.3</b>     | <b>2%</b>      | <b>33.3</b>    | <b>83.8</b>    | <b>(143.9)</b> | <b>18.0</b>    | <b>180.5</b>   | <b>211.5</b>   |
| A311  | Fixed assets  | 15,654.8          | 383.3            | 2%             | 33.3           | 83.8           | (143.9)        | 18.0           | 180.5          | 211.5          |
| A312  | Change in inventories                                 | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A313  | Valuables   | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A314  | Nonproduced assets                                    | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| <b>NLB</b>  | <b>Net lending / borrowing (1-2+NOBz-31)</b>          | <b>(15,654.8)</b> | <b>(1,099.8)</b> | <b>7%</b>      | <b>(428.5)</b> | <b>19.0</b>    | <b>(48.9)</b>  | <b>49.6</b>    | <b>(411.3)</b> | <b>(279.6)</b> |
| <b>TRANSACTIONS IN FINANCIAL ASSETS<br/>AND LIABILITIES (FINANCING):</b>                              |   |                   |                  |                |                |                |                |                |                |                |
| <b>A32</b>  | <b>Net acquisition of financial assets</b>            | <b>-</b>          | <b>(1,099.8)</b> | <b>(428.5)</b> | <b>19.0</b>    | <b>(48.9)</b>  | <b>49.6</b>    | <b>(411.3)</b> | <b>(279.6)</b> | <b>(279.6)</b> |
| A321  | Domestic  | -                 | (1,099.8)        | (428.5)        | 19.0           | (48.9)         | 49.6           | (411.3)        | (279.6)        | (279.6)        |
| A322  | Foreign   | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| A323  | Monetary gold and SDRs                                | -                 | -                | -              | -              | -              | -              | -              | -              | -              |
| <b>A33</b>  | <b>Net incurrence of liabilities</b>                  | <b>15,654.8</b>   | <b>-</b>         | <b>0%</b>      | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       |
| A331  | Domestic  | -                 | -                | 0%             | -              | -              | -              | -              | -              | -              |
| A332  | Foreign   | 15,654.8          | -                | 0%             | -              | -              | -              | -              | -              | -              |



**Table 5: Statement of government operation excluding donor financing using GFS01 Classifications**

| STATEMENT OF GOVERNMENT<br>Using GFS01 classification |  |                |                |                |                          |                          |                |                  |                  |
|---|--|----------------|----------------|----------------|--------------------------|--------------------------|----------------|------------------|------------------|
|   |  | Actual<br>2014 | Actual<br>2015 | Actual<br>2016 | Actuals<br>1 - June 2016 | Actuals<br>1 - June 2017 | Budget<br>2017 | Forecast<br>2018 | Forecast<br>2019 |
| GFS Cod   | GFS Description*                                 |                |                |                |                          |                          |                |                  |                  |
|   | TRANSACTIONS AFFECTING NET WORTH:                |                |                |                |                          |                          |                |                  |                  |
| A1  | Revenue  | 15,308.9       | 17,035.6       | 19,651.3       | 10,298.6                 | 10,342.5                 | 18,354.0       | 19,270.3         | 20,250.2         |
| A11   | Taxes  | 13,747.7       | 13,467.4       | 14,250.3       | 6,891.1                  | 8,040.4                  | 14,244.0       | 14,931.9         | 15,662.1         |
| A111  | Taxes on income, profits, and capital gai        | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A112  | Taxes on payroll & workforce                     | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A113  | Taxes on property                                | 429.6          | 401.5          | 397.8          | 201.2                    | 234.5                    | 471.2          | 497.4            | 526.1            |
| A114  | Taxes on goods & services                        | 10,654.6       | 10,116.2       | 10,694.2       | 5,266.6                  | 6,224.0                  | 10,867.7       | 11,367.9         | 11,892.9         |
| A115  | Taxes on international trade & transacti         | 2,663.5        | 2,949.7        | 3,158.4        | 1,423.3                  | 1,582.0                  | 2,905.1        | 3,066.6          | 3,243.1          |
| A116  | Other taxes                                      | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A12   | Social contributions                             | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A13   | Grants   | 0.0            | 359.6          | 1,003.0        | 1,003.0                  | 0.0                      | 0.0            | 0.0              | 0.0              |
| A14   | Other revenue                                    | 1,561.3        | 3,208.6        | 4,398.0        | 2,404.6                  | 2,302.1                  | 4,110.0        | 4,338.4          | 4,588.1          |
| A2  | Expense  | 15,242.8       | 15,765.3       | 17,848.3       | 7,871.4                  | 8,464.7                  | 19,364.3       | 17,605.5         | 18,104.6         |
| A21   | Compensation of employees                        | 8,393.5        | 8,719.2        | 8,869.6        | 3,886.8                  | 4,456.6                  | 9,956.5        | 9,836.6          | 10,131.7         |
| A22   | Use of goods and services                        | 3,584.5        | 3,630.5        | 3,655.8        | 1,870.0                  | 1,911.6                  | 5,702.9        | 3,865.1          | 3,981.1          |
| A23   | Consumption of fixed capital                     | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A24   | Interest   | 573.3          | 699.7          | 907.9          | 363.8                    | 429.7                    | 720.4          | 969.8            | 969.8            |
| A25   | Subsidies  | 0.0            | 0.0            | 0.0            | 0.0                      | 0.1                      | 0.0            | 0.0              | 0.0              |
| A26   | Grants   | 1,824.0        | 1,617.9        | 2,010.2        | 1,174.2                  | 744.1                    | 1,828.0        | 2,035.2          | 2,096.2          |
| A27   | Social benefits                                  | 240.7          | 470.1          | 1,544.4        | 151.8                    | 116.5                    | 227.5          | 127.5            | 131.3            |
| A28   | Other expense                                    | 626.8          | 627.9          | 860.4          | 424.9                    | 806.1                    | 929.0          | 771.3            | 794.5            |
| GOB   | Gross operating balance (1-2+23+NOBz)            | 66.1           | 1,270.3        | 1,803.1        | 2,427.3                  | 1,877.8                  | (1,010.3)      | 1,664.7          | 2,145.6          |
| NOB   | Net operating balance (1-2+NOBz) <sup>d</sup>    | 66.1           | 1,270.3        | 1,803.1        | 2,427.3                  | 1,877.8                  | (1,010.3)      | 1,664.7          | 2,145.6          |
|   | TRANSACTIONS IN NONFINANCIAL ASSETS:             |                |                |                |                          |                          |                |                  |                  |
| A31   | Net Acquisition of Nonfinancial Assets           | 239.5          | 418.4          | 595.8          | 266.9                    | 189.5                    | 299.4          | 251.4            | 259.0            |
| A311  | Fixed assets                                     | 239.5          | 418.4          | 595.8          | 266.9                    | 189.5                    | 299.4          | 251.4            | 259.0            |
| A312  | Change in inventories                            | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A313  | Valuables  | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A314  | Nonproduced assets                               | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| NLB   | Net lending / borrowing (1-2+NOBz-31)            | (173.3)        | 851.9          | 1,207.3        | 2,160.4                  | 1,688.3                  | (1,309.8)      | 1,413.3          | 1,886.7          |
|   | TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES |                |                |                |                          |                          |                |                  |                  |
| A32   | Net acquisition of financial assets              | (483.3)        | 326.3          | 1,844.5        | 2,426.7                  | 1,209.4                  | (1,828.3)      | 293.1            | 766.4            |
| A321  | Domestic   | (483.3)        | 326.3          | 1,844.5        | 2,426.7                  | 1,209.4                  | (1,828.3)      | 293.1            | 766.4            |
| A322  | Foreign  | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A323  | Monetary gold and SDRs                           | 0.0            | 0.0            | 0.0            | 0.0                      | 0.0                      | 0.0            | 0.0              | 0.0              |
| A33   | Net incurrence of liabilities                    | (310.0)        | (525.6)        | 594.7          | 266.3                    | (478.8)                  | (518.5)        | (1,120.3)        | (1,120.3)        |
| A331  | Domestic   | 262.9          | 31.7           | 1,152.6        | 534.5                    | (207.3)                  | 0.0            | 0.0              | 0.0              |
| A332  | Foreign  | (572.9)        | (557.4)        | (557.9)        | (268.2)                  | (271.6)                  | (518.5)        | (1,120.3)        | (1,120.3)        |

**Table 6: Statement of Government Operations Including Donor Financing (Consolidated) using GFS01 Classifications**

| STATEMENT OF CONSOLIDATED<br>Using GFS01 classification |                 |                 |                    |                      |                          |                   |                  |                  |
|---|-----------------|-----------------|--------------------|----------------------|--------------------------|-------------------|------------------|------------------|
| GFS Description*  | Actual<br>2014  | Actuals<br>2015 | Budget<br>2016 n - | Actuals<br>Sept 2016 | Actuals<br>Jan-Sept 2017 | Budget<br>2017    | Forecast<br>2018 | Forecast<br>2019 |
| <b>TRANSACTIONS AFFECTING NET WORTH:</b>                |                 |                 |                    |                      |                          |                   |                  |                  |
| <b>Revenue</b>  | <b>18,585.7</b> | <b>26,424.3</b> | <b>24,392.7</b>    | <b>12,882.0</b>      | <b>11,837.4</b>          | <b>26,423.3</b>   | <b>23,237.4</b>  | <b>24,102.8</b>  |
| Taxes   | 13,747.7        | 13,467.4        | 14,250.3           | 6,891.1              | 8,040.4                  | 14,244.0          | 14,931.9         | 15,662.1         |
| <i>Taxes on income, profits, and capital gains</i>      | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| <i>Taxes on payroll &amp; workforce</i>                 | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| <i>Taxes on property</i>                                | 429.6           | 401.5           | 397.8              | 201.2                | 234.5                    | 471.2             | 497.4            | 526.1            |
| <i>Taxes on goods &amp; services</i>                    | 10,654.6        | 10,116.2        | 10,694.2           | 5,266.6              | 6,224.0                  | 10,867.7          | 11,367.9         | 11,892.9         |
| <i>Taxes on international trade &amp; transactions</i>  | 2,663.5         | 2,949.7         | 3,158.4            | 1,423.3              | 1,582.0                  | 2,905.1           | 3,066.6          | 3,243.1          |
| <i>Other taxes</i>                                      | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Social contributions                                    | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Grants  | 3,276.8         | 9,748.2         | 5,744.3            | 3,586.3              | 1,494.9                  | 8,069.3           | 3,967.2          | 3,852.6          |
| Other revenue   | 1,561.3         | 3,208.6         | 4,398.0            | 2,404.6              | 2,302.1                  | 4,110.0           | 4,338.4          | 4,588.1          |
| <b>Expense</b>  | <b>17,267.8</b> | <b>19,152.1</b> | <b>21,238.8</b>    | <b>10,270.7</b>      | <b>10,676.1</b>          | <b>27,433.6</b>   | <b>21,572.7</b>  | <b>21,957.2</b>  |
| Compensation of employees                               | 8,582.2         | 8,893.0         | 9,107.8            | 3,980.2              | 4,682.0                  | 10,631.6          | 10,168.5         | 10,454.0         |
| Use of goods and services                               | 5,184.8         | 5,843.3         | 5,587.8            | 2,860.1              | 2,944.4                  | 11,372.7          | 6,652.6          | 6,688.0          |
| Consumption of fixed capital                            | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Interest  | 573.3           | 699.7           | 907.9              | 363.8                | 429.7                    | 720.4             | 969.8            | 969.8            |
| Subsidies   | 0.0             | 0.0             | 0.0                | 0.0                  | 0.1                      | 0.0               | 0.0              | 0.0              |
| Grants  | 2,034.8         | 2,530.2         | 3,227.4            | 2,491.6              | 962.6                    | 3,293.9           | 2,755.8          | 2,796.1          |
| Social benefits   | 241.1           | 476.2           | 1,547.6            | 152.1                | 850.9                    | 339.9             | 182.7            | 185.0            |
| Other expense   | 651.5           | 709.7           | 860.4              | 423.0                | 806.4                    | 1,075.2           | 843.2            | 864.3            |
| <b>Gross operating balance (1-2+23+NOBz)</b>            | <b>1,317.9</b>  | <b>7,272.2</b>  | <b>3,153.8</b>     | <b>2,611.3</b>       | <b>1,161.3</b>           | <b>(1,010.3)</b>  | <b>1,664.7</b>   | <b>2,145.6</b>   |
| <b>Net operating balance (1-2+NOBz) <sup>cl</sup></b>   | <b>1,317.9</b>  | <b>7,272.2</b>  | <b>3,153.8</b>     | <b>2,611.3</b>       | <b>1,161.3</b>           | <b>(1,010.3)</b>  | <b>1,664.7</b>   | <b>2,145.6</b>   |
| <b>TRANSACTIONS IN NONFINANCIAL ASSETS:</b>             |                 |                 |                    |                      |                          |                   |                  |                  |
| <b>Net Acquisition of Nonfinancial Assets</b>           | <b>548.3</b>    | <b>1,065.0</b>  | <b>2,589.3</b>     | <b>951.6</b>         | <b>572.8</b>             | <b>15,954.2</b>   | <b>9,247.9</b>   | <b>3,919.3</b>   |
| Fixed assets  | 548.3           | 1,065.0         | 2,589.3            | 951.6                | 572.8                    | 15,954.2          | 9,247.9          | 3,919.3          |
| Change in inventories                                   | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Valuables   | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Nonproduced assets                                      | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| <b>Net lending / borrowing (1-2+NOBz-31)</b>            | <b>769.6</b>    | <b>6,207.2</b>  | <b>564.5</b>       | <b>1,659.7</b>       | <b>588.5</b>             | <b>(16,964.5)</b> | <b>(7,583.1)</b> | <b>(1,773.7)</b> |
| <b>TRANSACTIONS IN FINANCIAL ASSETS AND</b>             |                 |                 |                    |                      |                          |                   |                  |                  |
| <b>Net acquisition of financial assets</b>              | <b>459.6</b>    | <b>5,681.6</b>  | <b>1,201.7</b>     | <b>1,926.0</b>       | <b>109.7</b>             | <b>(1,828.3)</b>  | <b>293.1</b>     | <b>766.4</b>     |
| Domestic  | 459.6           | 5,681.6         | 1,201.7            | 1,926.0              | 109.7                    | (1,828.3)         | 293.1            | 766.4            |
| Foreign   | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| Monetary gold and SDRs                                  | 0.0             | 0.0             | 0.0                | 0.0                  | 0.0                      | 0.0               | 0.0              | 0.0              |
| <b>Net incurrence of liabilities</b>                    | <b>(310.0)</b>  | <b>(525.6)</b>  | <b>594.7</b>       | <b>266.3</b>         | <b>(478.8)</b>           | <b>15,136.3</b>   | <b>7,876.2</b>   | <b>2,540.1</b>   |
| Domestic  | 262.9           | 31.7            | 1,152.6            | 534.5                | (207.3)                  | 0.0               | 0.0              | 0.0              |
| Foreign   | (572.9)         | (557.4)         | (557.9)            | (268.2)              | (271.6)                  | 15,136.3          | 7,876.2          | 2,540.1          |