

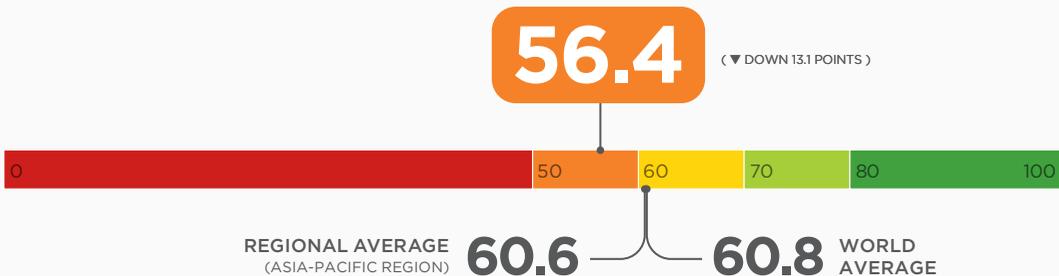
VANUATU

Vanuatu's economic freedom score is 56.4, making its economy the 116th freest in the 2019 *Index*. Its overall score has decreased by 13.1 points because of a nearly total collapse in **fiscal health** and sharply lower scores for **government spending, government integrity, judicial effectiveness, and trade freedom**. Vanuatu is ranked 26th among 43 countries in the Asia-Pacific region, and its overall score is now below the regional and world averages.

Strong factionalism continues to undermine policymaking. Economic development is hindered by dependence on relatively few commodity exports, vulnerability to natural disasters, and long distances to major markets. There is an overall lack of commitment to institutional reforms. Property rights are poorly protected, and investment is deterred by Vanuatu's inadequate physical and legal infrastructure. High tariffs and nontariff barriers to trade hold back integration into the global marketplace. Business activity is further limited by rigid labor regulations and widespread corruption.



ECONOMIC FREEDOM SCORE

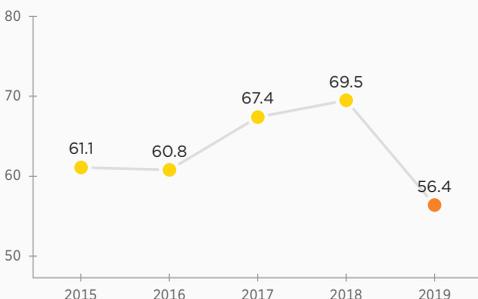


RELATIVE STRENGTHS:
Tax Burden and Monetary Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 2009):
-2.0

CONCERNS:
Fiscal Health and Judicial Effectiveness

FREEDOM TREND



QUICK FACTS

POPULATION:
0.3 million

GDP (PPP):
\$0.8 billion
4.2% growth in 2017
5-year compound annual growth 2.4%
\$2,739 per capita

UNEMPLOYMENT:
5.2%

INFLATION (CPI):
3.1%

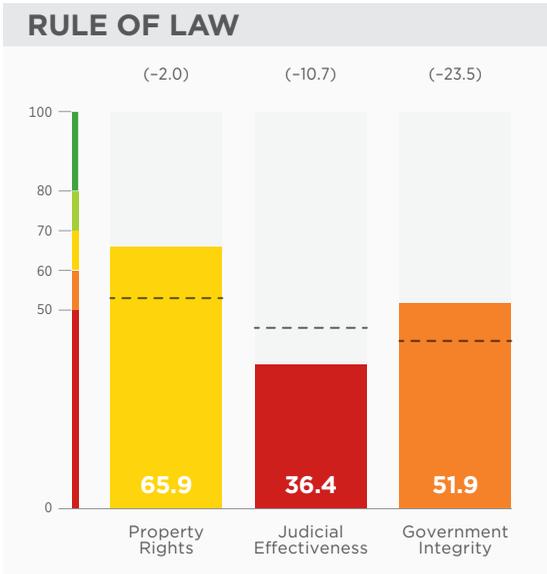
FDI INFLOW:
\$24.7 million

PUBLIC DEBT:
48.4% of GDP

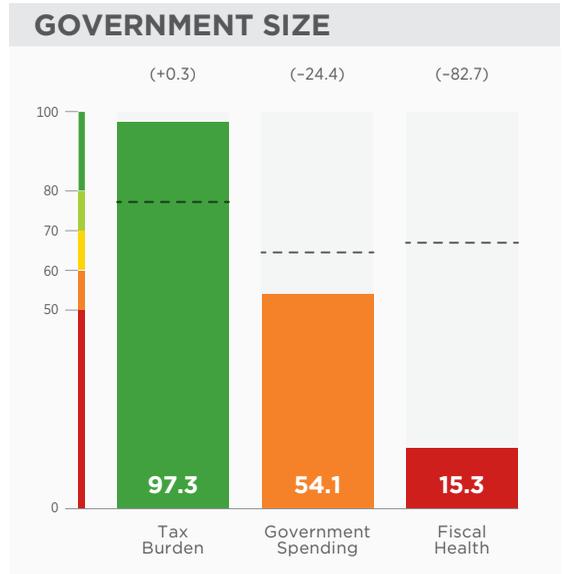
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Waves of colonizers migrated to the South Pacific's New Hebrides archipelago in the millennia preceding European colonization in the 18th century. The Republic of Vanuatu won independence from joint British-French administration in 1980 and is now a parliamentary democracy divided between its English-speaking and French-speaking citizens. Charlot Salwai of the Reunification of Movements for Change (RMC) became prime minister in 2016 following snap elections called after 14 members of parliament were convicted of bribery. Vanuatu is heavily dependent on agriculture, particularly subsistence farming, and tourism, which comprises 40 percent of the economy. The majority of reconstruction work to recover from 2015's destructive Cyclone Pam, which had a devastating impact on tourism, will end in 2019.

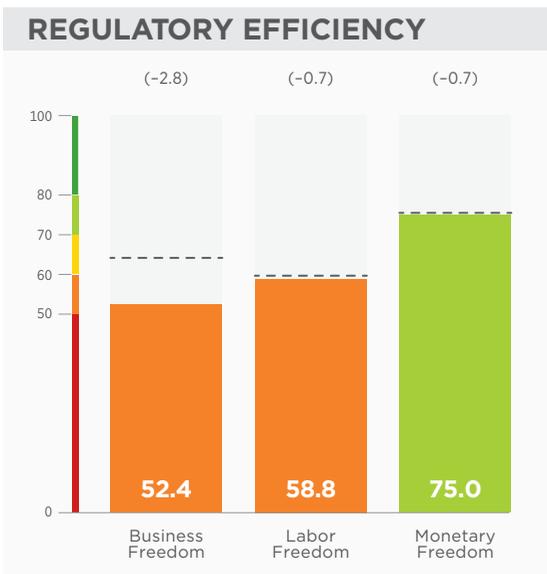
12 ECONOMIC FREEDOMS | VANUATU



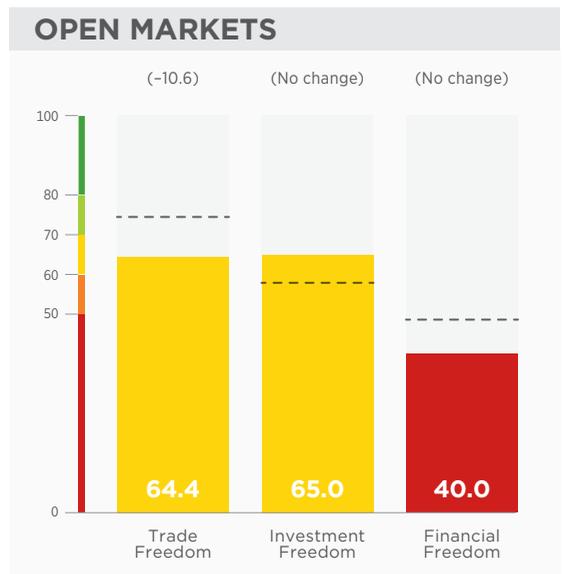
Enforcement of property rights is slow. The judiciary is largely independent but lacks the resources to retain qualified personnel. It takes an average of 480 days to resolve a dispute. Factionalism continues to undermine political stability, making the government vulnerable to corruption. After 14 members of parliament were convicted of bribery in 2015, voters elected legislative candidates in 2016 that were committed to reform.



Vanuatu imposes no individual or corporate income tax. Taxes include a value-added tax and import duties. The overall tax burden equals 16.3 percent of total domestic income. Over the past three years, government spending has amounted to 39.1 percent of the country's output (GDP), and budget deficits have averaged 7.7 percent of GDP. Public debt is equivalent to 48.4 percent of GDP.



Bureaucratic procedures are complex and nontransparent, and licensing requirements are costly. Effective institutional reforms are needed to spark development of a dynamic private sector. Labor codes are rigid and outmoded, and a formal labor market is not fully developed. The government continues to subsidize poorly managed and money-losing state-owned enterprises in such important economic sectors as agriculture, airports, banking, and broadcasting.



The combined value of exports and imports is equal to approximately 106 percent of GDP. The average applied tariff rate is 7.8 percent, and customs requirements further impede trade. Most business activities are open to foreign investment, but state-owned enterprises dominate such sectors as broadcasting and transport. Access to financing remains poor, and less than 15 percent of rural adults have access to formal banking services.