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TECHNICAL ASSISTANCE REPORT

VANUATU

Currency Basket Framework and FX Market Operations

September 2025

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The analysis and policy considerations expressed in this publication are those of the IMF's Monetary and Capital Markets Department.

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Glossary

ACI	Association Cambiste International
AUD	Australian Dollar
B&S	Buy and Sellback
CNY	Chinese Renminbi
CPI	Consumer Price Index
DRP	Disaster Recovery Plan
ERPT	Exchange Rate Pass-Through
ERD	Economics and Research Department
EUR	Euro
FMD	Financial Markets Department
FISD	Financial Institution Supervision Department
FO	Front Office
FX	Foreign Exchange
IC	Investment Committee
JPY	Japanese Yen
MCM	Monetary and Capital Markets Department
NOP	Net Open Position
NZD	New Zealand Dollar
RBV	Reserve Bank of Vanuatu
SAA	Strategic Asset Allocation
SDR	Special Drawing Rights
TA	Technical Assistance
USD	United State Dollar
VUV	Vanuatu Vatu

Preface

At the request of the Governor of the Reserve Bank of Vanuatu (RBV), a Monetary and Capital Markets (MCM) Department mission visited Port Vila, from June 9 to June 13, 2025, to review the currency basket framework, update the weights of the currency basket and review the FX market operations. This on-site mission followed a series of off-site meetings held in May.

The mission met with the Honorable August Letlet—Governor of the RBV, Cynthia A. Ngwelederu—Acting Director of the Economic and Research Department (ERD), Frederic Jacob—Acting Director of the Financial Markets Department (FMD), Derek Jr. Alexander—Acting Director Corporate Services Department, NBV bank, ANZ bank and BRED Bank. The mission wishes to thank Johncy Bebe, Juliana Malasikoto, Pita Toa, Lordan Raplili, Barnabas Aru, Joylin.W. Bisiwei, and to their colleagues, for their cooperation, productive discussions, and their hospitality.

Executive Summary

This Technical Assistance (TA) on the foreign exchange (FX) market and the currency basket operations is in response to a request by the authorities of the Reserve Bank of Vanuatu (RBV). The main objectives are to review and update the weights of the basket; and review the FX operations of the RBV.

The effective operationalization of Vanuatu's currency basket is constrained by technical and data limitations, as well as the absence of a clearly defined FX policy. These constraints are further exacerbated by limited technical capacity within the Reserve Bank of Vanuatu (RBV) to analyze trade invoicing data, insufficient capacity at the Vanuatu Bureau of Statistics (VBoS) to produce CPI monthly, and organizational weaknesses in the governance and management of the basket. Notably, the basket weights have not been updated since 2016.

Given current CPI data limitations, the model for estimating optimal basket weights cannot yet be fully operationalized. To address this, the mission presented an interim methodology based on the currency denomination of trade flows. In parallel, the mission introduced an Excel-based tool designed for use by RBV staff without prior programming experience. The underlying model, developed in Python, was presented and discussed with staff from the Financial Markets Department (FMD) and the Economic and Research Department (ERD). Once monthly CPI data becomes available, the model can be fully implemented to inform revisions to the currency basket.

The FX market in Vanuatu is underdeveloped. Due to a lack of interbank activity, commercial banks rely entirely on the RBV for FX liquidity, with transactions allowed only once a week and subject to strict caps. This centralized rationed approach has created inefficiencies, discouraged market innovation, and limited the scope for natural price discovery.

The RBV's FX operations are marked by outdated and undocumented processes and vulnerabilities that undermine transparency and efficiency. The RBV determines the VUV exchange rate daily based on manually input prices in an unsecured Excel spreadsheet. Intra-day FX price movements are not accounted for, which limits price discovery and opens the door to arbitrage opportunities. Additionally, the RBV allocates both USD and AUD, resulting in inconsistent pricing due to currency fluctuations.

Communication and governance within the FX framework are also notably weak. There is no formal FX policy document, no structured engagement with commercial banks, and minimal public information about the FX regime. Most commercial bank representatives lack a clear understanding of the VUV's peg structure. Moreover, the RBV operates without formal FX market conventions or Net Open Position (NOP) limits, despite long-standing plans for their introduction. These gaps in policy, regulation, and communication leave the RBV vulnerable to operational, reputational, and policy risks while stifling the development of a more functional and competitive FX market.

The RBV should strengthen the transparency of its currency basket framework and FX market operations (Table 1). The VBoS should be responsible for producing trade invoicing data and CPI at a monthly frequency. The ERD should be responsible for the computation of the basket weights and own the regular analysis for the trade invoicing data. A Memorandum of Understanding (MoU) should be established between the RBV and the VBoS to facilitate regular data sharing, including access to trade and CPI data. The mission recommended several measures for market development. The RBV should: (i) remove obstacles to price discovery; (ii) initiate a systematic FX market intelligence framework; and (iii) draft and adopt a formal FX policy.

Recommendations

Table 1. Key Recommendations

Recommendations	Priority	Timeframe[1]/
Currency Basket Framework		
The RBV may consider a basket based on the currency denomination of trade flows.	High	Near-term
VBoS should enhance CPI data reporting. To support the effective implementation of the currency basket framework, the VBoS should publish the Consumer Price Index (CPI) at a monthly frequency.	High	Medium-term
The responsibility for producing trade invoicing data should be assigned to the VBoS.	High	Medium-term
The computation of the currency basket should be assigned to ERD, with revisions conducted annually or as needed based on significant deviations such as a change of ±five percent or more in the weight of a major currency. For an effective implementation of the basket, the ERD should own the regular analysis of the trade invoicing data.	High	Near-term
FMD should streamline the use of the daily exchange rate file to compute the VUV/USD reference rate to better align with the currency basket.	High	Near-term
A Memorandum of Understanding (MoU) should be established between the RBV and the VBoS to facilitate regular data sharing, including access to trade and CPI data.	High	Near-term
Require Board approval for changes to the currency basket framework.	High	Near-term
FX Market Operations		
Initiate a systematic FX market intelligence framework	Medium	Medium-term
Increase the robustness of the Excel based procedure used to calculate the basket value	High	Near-term
Recalculate the day's official dealing price once the spread between the start of day basket value and its intraday value reaches a predefined trigger	Low	Medium-term
Remove the USD 300,000 per bank weekly cap on FX allocations	High	Near-term
Eliminate the hurdle for obtaining FX for capital account transactions from the RBV (as long as the RBV's FX regulation allows capital account transactions)	Medium	Near-term
Deal only in USD when allocating FX to banks.	Medium	Near-term

Recommendations	Priority	Timeframe[1]/
Terminate the B&S arrangement	High	Medium-term
Strengthen communication related to the FX regime	High	Near-term
Establish a structured dialogue framework through regular meetings with commercial banks to discuss developments and challenges in the FX market	High	Medium-term
Draft and adopt a formal FX policy	High	Near-term
Maintain a digitalized library of all the RBV's governing documents	High	Medium-term
Update the operation manual and ensure it covers fully the FX function's operational cycle	High	Medium-term
Finalize and implement FX NOP regulation	Medium	Near-term
Develop an FX market convention and require all FX market participants to comply with its provisions	Medium	Medium-term
Require FX market participants to obtain Association Cambiste International (ACI) certification	Medium	Long-term

[1]/ Near-term: < 12 months; Medium-term: 12 to 24 months; Long-term two to four years.

Introduction

1. **The Reserve Bank of Vanuatu's last review of the currency basket weights was conducted in 2016, and the weights have not been updated since.** The methodology and data used to compute the 2016 weights are not documented, due to the absence of a formal handover process. Since then, no revisions have been made, largely due to the lack of clarity over institutional responsibilities for managing the basket peg. At present, the basket is overseen by the Financial Markets Department (FMD), which also manages foreign exchange market operations.

2. **To strengthen its capacity to manage the currency basket and foreign exchange framework, the Reserve Bank of Vanuatu (RBV) requested technical assistance (TA) from the IMF's Monetary and Capital Markets Department (MCM).** In response, the mission reviewed the composition and operational aspects of the currency basket, and the institutional arrangements in place. The mission provided recommendations to support the effective management of foreign exchange under the pegged exchange rate regime and introduced a framework for the regular updating of basket weights.

3. **The remainder of this document is structured as follows:** Section I outlines the currency basket peg and its intended objective. Section II presents a proposed methodology for updating the currency basket weights. Section III describes the current structure and functioning of the foreign exchange market, identifies key challenges, and discusses the most relevant trade-offs. Finally, Section IV outlines potential avenues for further capacity building.

I. Currency Basket Peg

A. Currency Basket Objective in Vanuatu

4. **The weights of the currencies within a basket are sensitive to the choice of policy objective.** In practice, it is difficult to achieve multiple objectives—such as price stability, external competitiveness, and external debt stabilization—simultaneously through a single exchange rate policy or basket arrangement. Table 2 provides a survey on the choice of the currency basket and its intended policy objective.

Table 2. Survey of Policy Objective and Recommended Basket Peg

Policy objective	Recommended peg	Source
Minimize deviations of exports from a target level.	Basket peg with weights reflecting the export shares of each currency, modified by the covariance terms between exchange rates and price levels.	Edison and Vardal (1987)
Minimizing deviations in the production of tradable goods from a target level.	Basket peg with weights reflecting the trade (export and import) shares of each currency, modified by the covariance terms between exchange rates and price levels.	Edison and Vardal (1990)

Stabilization of the real exchange rate.	Peg to elasticity-weighted basket modified by covariance between price and exchange rate movements.	Lipschitz and Sundararajan (1980)
Stabilization of the current account.	Basket peg with weights reflecting elasticities of demand with respect to exchange rates.	Flanders and Helpman (1979)
Stabilization of output and prices.	Basket peg with weights reflecting the impact of the level of foreign-currency debt and imported inflation.	Rajan (2000)
Stabilization of output for oil exporters.	Basket that includes oil price index	Jeffrey Frankel (2017)
a. Value of trade (exports plus imports) stability. b. Output stability.	a. Basket peg with weights equal to trade weights (under certain assumptions). b. Basket peg with weights depending on parameter values.	Yoshino, Kaji, and Suzuki (2000)

5. **In Vanuatu, the currency basket is specifically designed with the primary objective of maintaining price stability.** At present, the exchange rate serves as the sole operational target for the RBV to control inflation. This approach is underpinned by the Vanuatu's high import propensity to import and the fact that headline inflation is largely driven by imported food prices. As a result, the design of the currency basket is based on the value of trade. The management of the basket's operations is entrusted to the Financial Markets Department (FMD), which also oversees the RBV's foreign reserves management and the monitoring of the daily exchange rates**.**

6. **The currency composition of the basket also serves as a target for allocating the foreign reserve portfolio.**[1] The RBV appropriately aligns the currency composition of its foreign reserves with that of the basket. Its reserve's numeraire is local currency. Utilizing the local currency as the numeraire is uncommon among central banks in low-income countries.[2] To maintain the peg, the RBV is rationing FX through capped weekly allocations (see paragraph 46 for further details).

B. Currency Dynamics within the Basket

7. **The basket has been constructed using the top four invoice currencies. The composition of the current basket includes the US dollar, the Australian Dollar, the New Zealand dollar, and the Euro.** The weight assigned to each currency was calculated based on the value of trade (exports and imports) and tourism earnings.[3] The most recent review was conducted in 2016. However, the composition and weights of the basket are not publicly disclosed. In this context, while the decision to publish this information rests with the Central Bank, the mission recommends that the authorities clearly communicate that the currency basket framework is

[1] Vanuatu's gross official reserves are equal to USD 660 million (seven months of imports cover), supported by tourism receipts, remittances, and donor support. This level of reserves is above the minimum level of four months of imports targeted by the RBV (source: RBV authorities).

[2] Using foreign reserves' numeraire in local currency can lead to inaccuracies due to exchange rate fluctuations, affecting the true valuation of reserves. Additionally, local currency may be subject to inflation, which can misrepresent the financial position. This approach can also complicate comparisons with other countries' reserves and potentially undermine investor confidence in the valuation and stability of the local economy.

[3] RBV authorities noted the absence of documentation for exports, imports and tourism data for the last review of the weights in 2016, attributing this to recent staff reassignments that occurred without a proper handover process.

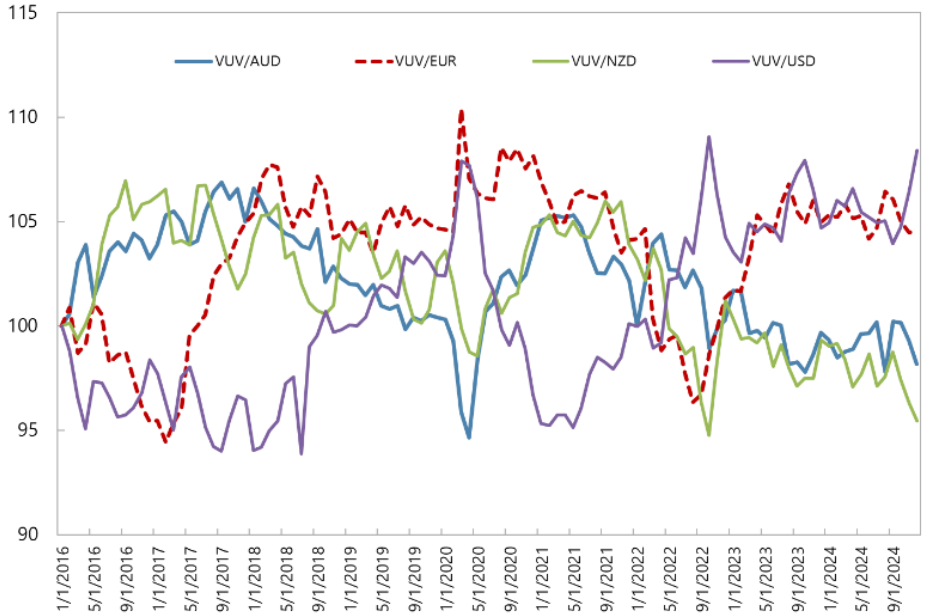
designed with the overarching objective of achieving price stability, in line with the Central Bank's mandate. Enhancing transparency could further strengthen the credibility of the framework and support the role of the exchange rate as an effective nominal anchor.

8. **The absence of an update to the basket weights since 2016 reflects a combination of capacity constraints, technical challenges, and institutional difficulties**. Specifically: (i) the FMD is responsible for multiple functions, including the computation of basket weights, daily exchange rates, and reserve management; (ii) the basket weights are not publicly disclosed, meaning they are only disclosed and shared internally with FMD and the investment committee (IC); (iii) access to trade data requires a license from the VBoS; and (iv) there has been no proper handover process since 2016, compounded by recent staff reassignments.

9. **The FMD department is responsible for computing the daily exchange rate, which is subsequently sent to commercial banks and published on the RBV website.** The department currently calculates VUV/USD through an unnecessarily complex procedure involving the SDR. The base rate is defined as the USD/SDR and VUV/SDR exchange rate at the latest reference period of January 2025.

10. **Since the basket became fully operational in 2016, the USD and EUR have appreciated, while the other currencies in the basket have depreciated.** Most notably, the AUD, which is the second largest import-denominated currency in the basket, has depreciated marginally since the last review of the basket peg.

Figure 1. Currency Dynamics, 2016–2024
(VUV per Foreign Currency; Index=100 on January 2016)



Source: Authorities data and IMF staff calculation.

C. Consumer Price Index

11. **The RBV's primary objective is to maintain price stability.**[4] The Consumer Price Index (CPI) in Vanuatu is currently produced quarterly by the Vanuatu Bureau of Statistics (VBoS). The CPI basket consists of eleven categories (Table 3) with food category accounting for the highest weight[5] (47 percent) followed by transport (13 percent), drinks and tobacco (11 percent), housing and utilities (nine percent), miscellaneous (four percent), household supplies (four percent), education (three percent), communications (three percent), clothing and footwear (three percent), recreation (one percent) and health (0.3 percent).

Table 3. Consumer Price Index (CPI) Categories

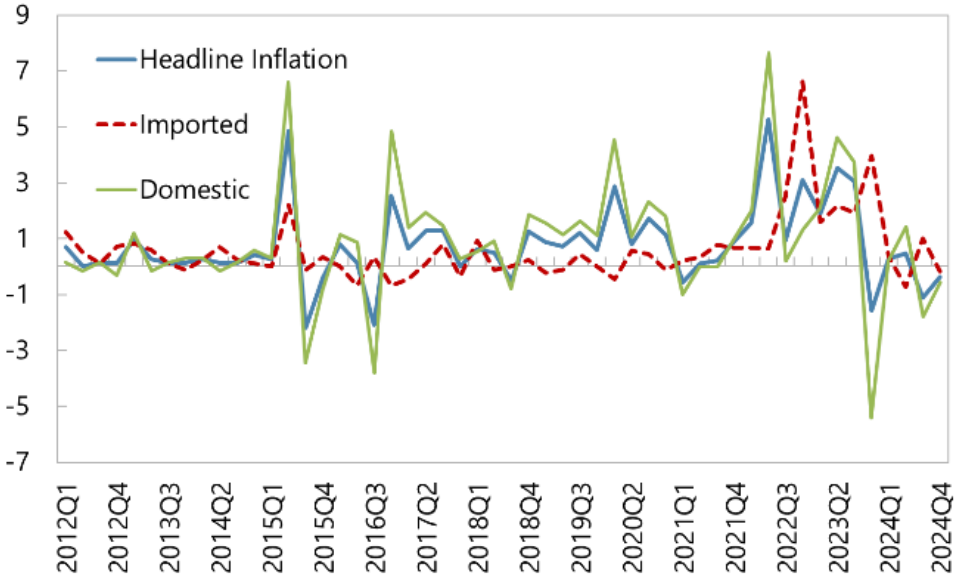
CPI category	Weights (%)
Food	47
Transport	13
Drinks and tobacco	11
Housing and utilities	9
Miscellaneous	4
Household supplies	4
Education	3
Communications	3
Clothing and footwear	3
Recreation	1
Health	0.3

12. **Since 2022, headline inflation appears to have been largely driven by imported inflation (figure 2).** The increase in headline inflation was primarily attributable to rising food prices, which were significantly affected by the impact of cyclones on the agricultural sector. Since 2023Q3, imported and domestic inflation have declined, indicating a broad-based easing of inflationary pressures, with both measures turning negative.

[4] RBV target inflation is in the range of zero to four percent. The RBV publishes this information on its website.

[5] December 2024.

Figure 2. Inflation–QoQ Percentage Change



Source: VBoS and IMF staff calculation.

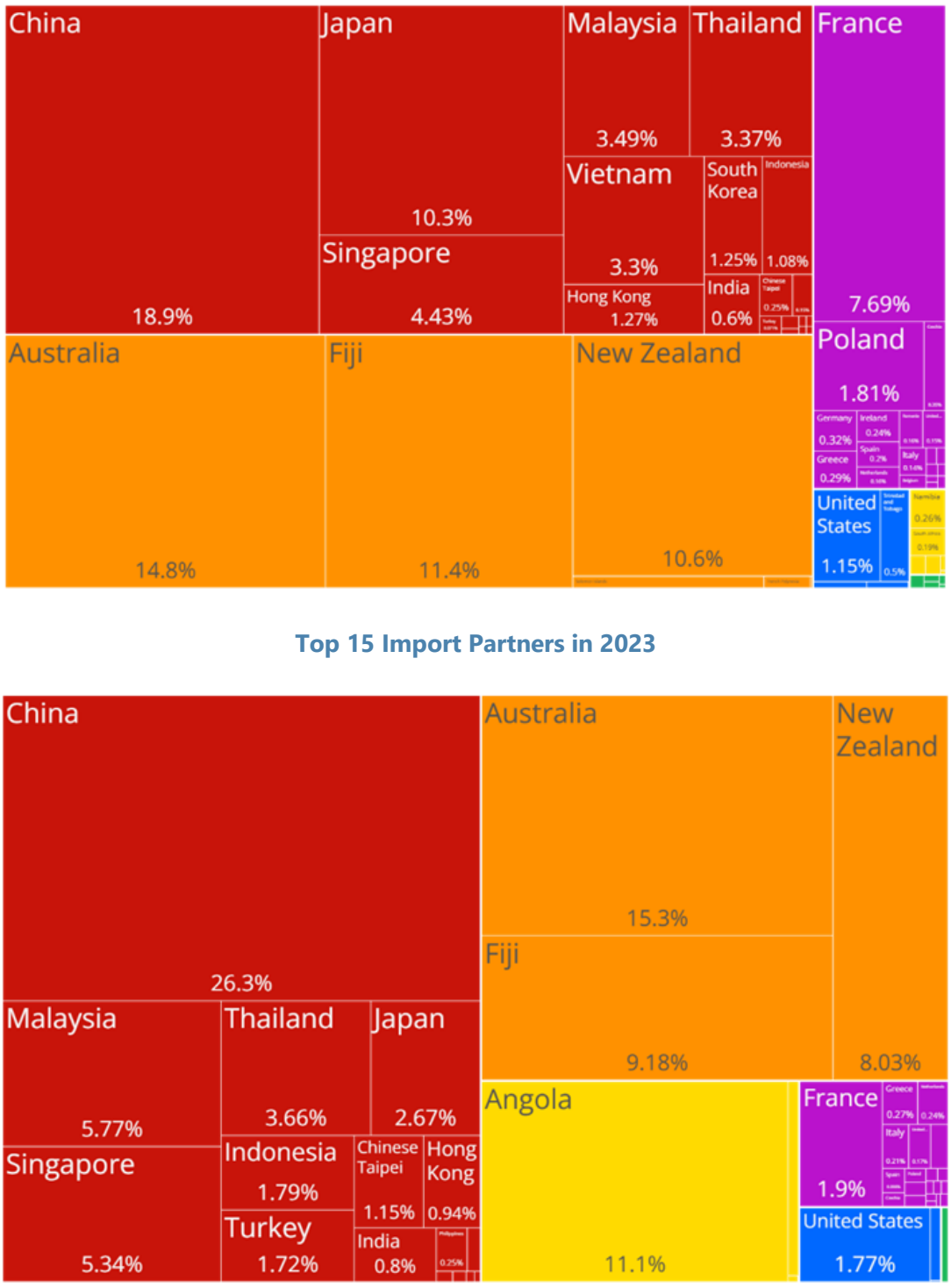
D. Change in Import Partners and Trade Invoicing

13. **Imported goods are predominantly a combination of basic commodities (food and fuel) and capital goods (machines, trucks, vessels).**[6] The imports in Vanuatu are predominantly refined petroleum, other sea vessels, delivery trucks, poultry meat, baked goods, rice and broadcasting equipment.

14. **Vanuatu's import trade partners have evolved since the last computation of basket weights. The composition of imports partners changed substantially from 2016 to 2023 (Figure 3).** Notably, China's share of total imports increased from 18.9 percent in 2016 to 26.3 percent in 2023, making it Vanuatu's largest import partner. By contrast, the United States accounted for only 1.77 percent of total imports in 2023.

[6] What does Vanuatu import? (2023) | The Observatory of Economic Complexity

Figure 3. Vanuatu Import Structure in 2016 and 2023



Source: Direction of Trade Statistics (DOTS) and IMF Staff calculation.

15. **Import invoicing data presents a different picture.** Although, Vanuatu has increased its economic exposure to China, the USD remains the dominant currency for import transactions. According to customs data, the share of imports denominated in USD rose from 50 percent in 2018 to 59 percent in 2024. Moreover, the invoice data has CNY included into the other currencies, so it is not possible to see direct exposure to China. However, the share of others is less than four percent.

Table 4. Share of Import Payments by Currency in 2024

	USD	AUD	NZD	EUR	OTHERS
Imports	58.83%	18.79%	7.77%	3.18%	3.42%

Source: RBV Data.

E. Recommendations[7]

16. **To support the effective implementation of the currency basket framework, the VBoS should enhance CPI data reporting over the medium term.** Currently, the VBoS produces headline, imported and domestic CPI only on a quarterly basis. However, recalculating the basket weights using the FX composite model requires monthly CPI data. It is therefore essential that VBoS transition to monthly CPI publication to enable model-based recalculation in the medium term.

17. **ERD should own the regular analysis of the trade invoicing data.** The Customs and Inland Revenue department collects annual data on imports and exports by currency. However, available data only covers the period from 2018 to 2024, and there is no historical series for 2016, the year in which the last review of the basket weights was conducted. Efforts should be made to improve the continuity and historical coverage of this dataset to support future updates of the currency basket.

18. **FMD should streamline the use of the daily exchange rate file to compute the VUV/USD reference rate to better align with the currency basket.[8]** Automating this process and excluding the SDR from the computation, given that it yields the same result, would simplify the procedure, reduce the risk of errors, and allow staff to allocate more time to other core functions related to the currency basket or foreign exchange operations (see Figure 6 for more details).

19. **A Memorandum of Understanding (MoU) should be established between the RBV and the VBoS to facilitate regular data sharing, including access to trade and CPI data (see Annex III for the MoU template).** The authorities indicated their intention to take immediate action on this recommendation.

20. **To support the effective implementation of the currency basket framework, the RBV should ensure to document the updated procedures.** This would help strengthen institutional continuity and facilitate future handover processes.

[7] The recommendations in this section are also reflected in Table 1, which provides a summary of key measures proposed by the mission.

[8] For further details, see the Handbook Chapter on Establishing Reference Rates and the IOSCO principles at: https://www.imf.org/-/media/Files/Publications/Miscellaneous/English/2025/ta-handbook-chapter-foreign-exchange-reference-rates.ashx

II. Optimal Basket Design for Vanuatu

A. Framework

21. **An anchor currency for a pegged exchange rate arrangement should satisfy several key criteria, including strong trade and financial linkages with the domestic economy, a robust track record of low and stable inflation, similarity of external shocks, and high convertibility.** First, the anchor currency must be highly relevant to the adopting economy, given its widespread use in both trade and financial transactions by domestic economic agents. Second, it should be a convertible currency from a relatively large economy, ensuring free and low-cost trading in both domestic and international foreign exchange markets. Third, the anchor currency should have a strong and credible track record of maintaining low and stable inflation. Fourth, the currency basket should exhibit stability in terms of low volatility. While the first two criteria are relatively straightforward to satisfy, meeting the third and fourth criteria presents challenges in the case of the Vanuatu's currency basket.

22. **To design an effective anchor currency basket, the weights should be selected to stabilize the basket and minimize the pass-through of exchange rate fluctuations to import prices.** An FX composite model, developed by MCM, is a quantitative tool that enables applying this approach to determine the optimal weights of a currency basket.

23. **The pass-through can be categorized into direct and indirect channels.** This direct effect occurs very quickly for goods and services at the point of entry to the country, though there is a lag before it is evident in the final prices that consumers have to pay. In the indirect channel, changes in import prices arising from a change in the exchange rate mainly influence demand for tradable goods and services.

24. **The mission flagged the absence of CPI data at a monthly frequency, which constrains the analysis of the impact of bilateral exchange rate fluctuations on changes in import prices, therefore restricts the use of our FX composite model.** The VBoS currently produces CPI only at a quarterly frequency. Moreover, the mission highlighted the administrative burden faced by RBV departments in requesting this data from the VBoS, as access requires a data license.

25. **Given the availability of CPI data only at a quarterly frequency, the updated basket weights will be computed based on trade and tourism data and will be considered optimal under current data constraints.** Most import payments and export receipts are denominated in USD, while tourism inflows predominantly originate from Australia.

26. **Once VBoS begins producing CPI data at a monthly frequency, the currency basket weights can be re-estimated using the FX composite model (see Annex I for further details on the model).** This approach will allow for a more precise assessment of the relationship between bilateral exchange rate fluctuations and import prices, thereby enabling the calculation of statistically optimal weights that better reflect Vanuatu's external trade and price dynamics.

27. **Based on Vanuatu's current currency framework, we consider four currencies (USD, AUD, NZD and EUR).** Estimated trade invoicing data indicates that all currencies, have a non-negligible proportion in invoicing trade, with the US dollar and the AUD dollar having the largest impacts. Most trade from China is administered using the USD, and as such CNY has a low estimated share.

B. Results

28. **Monthly CPI is a key element to estimate the exchange rate pass-through to imported inflation.** Given the absence of CPI data at a monthly frequency, the basket weights can be computed using exports, imports and tourism data to better reflect Vanuatu's imports.

29. **The 2024 basket weights should be computed with a view to maintaining the stability of the Vatu.** This serves as an interim measure to revise the weights last estimated in 2016, given current CPI data constraints. Until higher-frequency CPI data become available to support model-based recalculation, this pragmatic approach can help guide policy decisions.

30. **The stability of the Vatu will be influenced by the relative shares of the USD and AUD.** A higher weight on either currency will increase the sensitivity of the Vatu's value to movements in that currency (see Figure 4 for illustration):
    - **Current weights:** this basket contains a higher share of the AUD. The currency basket index will move with AUD/USD movements. If the USD depreciates, the Vatu will follow AUD movements, resulting in a lesser depreciation of the Vatu.
    - **Trade weights:** this basket contains a higher share of the USD. The currency basket index will move with USD movements. If the AUD depreciates, the Vatu will follow USD movements, resulting in a lesser depreciation of the Vatu.

Figure 4. Current Weights vs Trade Weights

Source: RBV data and IMF staff calculations.

31. **Given data constraints, ERD may consider using trade-based weights[9] to update the currency basket, as an interim measure to revise the weights initially estimated in 2016.** The RBV staff were presented with three sets of weights: (i) the current weights established by the RBV since 2016; (ii) trade weights for 2024 calculated based on imports, exports and tourism; and (iii) trade weights for 2024, including remittances in the calculations. It is important to note that remittance-based weights are not considered, as remittances are not well captured, and do not adequately reflect Vanuatu's trade structure.

[9] See Annex I for further details. Note that the basket weights are not disclosed in this report, in line with a confidentiality request by the Governor of the RBV.

C. Recommendations[10]

32. **The computation of the currency basket should be assigned to ERD and revised on an annual basis or as needed based on significant deviations such as a change of ±five percent or more in the weight of a major currency.** While FMD currently manages the basket weights, they are only shared internally with FMD and the IC. It is recommended that ERD formally take over responsibility for computing the basket weights as part of its mandate. This should be complemented by regular monitoring and analysis of trade and CPI data to ensure the weights remain relevant and data driven.

33. **Once VBoS begins producing CPI data at a monthly frequency, the currency basket weights can be re-estimated using the FX composite model (see Annex I for further details on the model).** The Excel-based tool offers the flexibility to update the weights.

III. FX Market in Vanuatu

A. Market Structure

34. **The Vanuatu's FX market is not developed.** This small market is defined by a small number of banks, no trading, and a low level of market sophistication. Five banks are currently offering FX services in the market while three money changers are only allowed to transact in cash bank notes.

35. **Sources of activity in the FX market are concentrated.** FX inflows are mainly driven by fruit exports, tourism, remittances and passport sales,[11] while outflows are largely associated with energy, food and machinery imports.

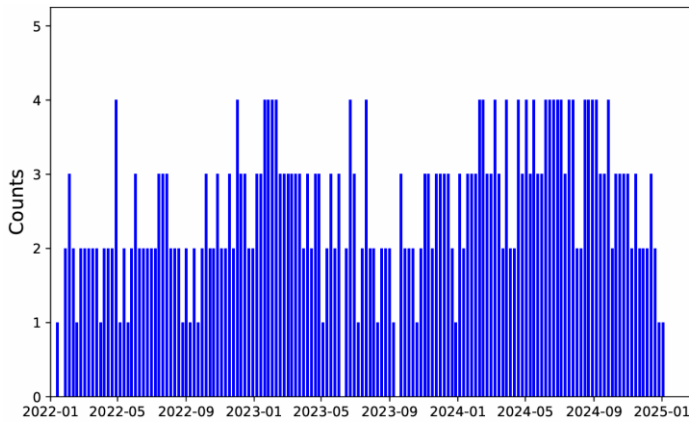
36. **There is no interbank activity in Vanuatu.** The RBV does not collect data on its FX interbank activity. However, commercial banks met by the mission confirm that the prevailing rationing of FX in the Vanuatu market is not conducive to interbank activity and this market is non-existent. Other usual factors that limit interbank activity in small FX markets are at play: (i) small number of participants; (ii) synchronized FX flows moving in the same direction; (iii) concerns over counterparty risk; and (iv) competitive pressures.

37. **Commercial banks are clearing their positions with the RBV.** Considering the absence of interbank activity, when commercial banks do not have enough USD from their selling clients to satisfy their buying clients, they have to deal with the RBV. In the current framework, commercial banks are only allowed to transact once a week with the RBV for a capped amount (*see infra*). No bank has sold FX to the RBV in the last three years. However, Figure 5 shows that the five banks are using their weekly access to the RBV facility to obtain USD regularly.

[10] The recommendations in this section are also reflected in Table 1, which provides a summary of key measures proposed by the mission.

[11] According to the RBV staff, passport sales have declined significantly and it is not clear if they will recover.

Figure 5. Number of Weekly Commercial Banks' FX Purchases from the RBV (January 2022 to December 2024)



Source: Reserve Bank of Vanuatu and mission's calculations.

38. **Limited information gathering and market intelligence initiatives keep the RBV in the dark about FX market's activity.** Currently, the RBV does not collect interbank data or analyze client's FX flows. Even though the environment is currently not conducive to interbank activity, the market was more balanced a few years ago and banks met by the mission confirmed there used to be anecdotal interbank FX activity in the vatu. The absence of a market intelligence process deprives the RBV of potentially valuable information, *inter alia*, on market developments,[12] flow cyclicality, and the potential revival of interbank activity in its FX market.

B. RBV's FX Market Operations

39. **The RBV adheres strictly to its basket algorithm.** For more than 20 years, FMD has used the same file incorporating the weights and parameters to compute the VUV value.

40. **The FMD updates the VUV price daily.** The FMD obtains the prices of the currencies used to compute the basket from Bloomberg at 8:30 AM. These prices are entered manually in its Excel spreadsheet. The VUV value is communicated to banks via e-mail before 9:00 AM and is published on the RBV's website simultaneously. This rate is the basis for the RBV's transactions with commercial banks, government entities, and other clients. It is also the anchor for commercial banks' transactions with their clients.

41. **The RBV communicates its FX rates simultaneously to all its external stakeholders.** Even though, market activity is not time sensitive and there is no bona fide trading in Vanuatu, this timely and synchronized communication is aligned with best practice.

42. **However, the operational implementation of the FX basket exposes the RBV to undue vulnerabilities.** Manual input of prices in the Excel spreadsheet increases the RBV's operational risks. Even though the daily price procedure involves four-eyes principles, it is more vulnerable than if it was performed through automatic links. Furthermore, the Excel spreadsheet's cells are not locked, the file is not password protected, and no document explains how to use the file.

[12] E.g., the RBV was not aware that a commercial bank was transacting FX forwards with its clients.

43. **The RBV does not monitor the variation of the basket intrinsic value during the day.** FX prices move continuously. Consequently, while the price published on the website accurately reflects the 8:30 AM market conditions, significant divergences could occur in a one-day period in case of large movements in the components of the basket.

44. **Intra-day price movements in the FX components of the basket, in case they are large enough, could alter the behavior of the more astute market participants.** Even though the VUV is not a currency where FX arbitrage is highly probable, sophisticated market participants and banks with pending transactions could, in these circumstances, benefit through either hastening their transaction or delaying it until the next day.

45. **Publishing the VUV rate only once a day also reduces transparency.** Even if there is almost no arbitrage potential in the VUV, more dynamic pricing by the RBV could: (i) increase price awareness and price discovery; and (ii) help market participants understand the underlying mechanisms of the basket.

46. **The RBV applies a 0.60 vatu spread between its buying and selling price.** The price obtained from the algorithm is the VUV mid-rate. RBV incorporates a bid-offer spread (0.5 percent at time of mission) on its transactions with commercial banks, government and other specific clients.[13]

FX Allocations

47. **The RBV also set a minimum amount for accessing its FX allocation window.** To avoid transacting in minute amounts with its commercial banks, the RBV does not allocate less than USD 250,000 weekly per bank.

48. **The current FX allocation process is hindered by procedural inefficiencies that undermine operational effectiveness.** Specifically, the requirement for all members of the RBV's IC to sign off on FX allocations and their accompanying documents introduces an unnecessary layer of bureaucracy. The IC's involvement in FX-related decisions is misaligned with its core mandate, particularly given that FX controls fall outside the scope of the RBV's current policy and regulatory framework.

49. **However, more importantly, efforts to control FX imbalances through administrative measures can have unintended consequences**. Restricting access to FX does not diminish underlying demand; it merely pushes it forward. The RBVs rationing measures not only defer demand but also encourage hoarding of USD and bypassing existing administrative exchange controls.[14]

50. **The RBV has introduced FX rationing as a measure to mitigate liquidity risk in its FX reserves portfolio.** According to the RBV, the weekly cap on FX demand per commercial bank aims to curb the pace of reserve drawdowns. However, this cap is not documented and is not part of the currently prevailing notice.

51. **FX operations should not be subordinated to an inadequate FX reserves' Strategic Asset Allocation (SAA) framework.** The liquidity objective of FX reserves should be intended, *inter alia*, to accommodate unexpected FX outflows. The current constraints on the RBV's operations

[13] E.g., Asian Development Bank, World Bank and other donors

[14] In spite of the prevailing rationing, market participants have not reported indications of parallel market activity or tempering with invoicing. However, the mission has not been able to meet with importers or exporters to validate this information.

with commercial banks highlight a misalignment of priorities, where FX operations are guided by a reserve management framework that does not support short-term liquidity demands.[15]

52. **Commercial banks also have to use their own funds to satisfy the FX demand related to their clients' capital account transactions.** Even though capital account related transactions are allowed, commercial banks are not allowed to source their FX needs linked to capital account transactions at the weekly RBV allocation mechanism. This artificial hurdle is only displacing temporarily the demand. The commercial banks in FX deficit that cannot immediately accommodate their clients with capital account related FX demand will only transfer more of their importers' FX demand to the allocation mechanism and use their internally sourced FX to satisfy the capital account linked transactions.

53. **The RBV allocates its FX in USD and AUD.** Until a few years ago, the RBV was only allocating USD to its commercial banks. However, Vanuatu's largest bank lost its USD correspondent as a result of the recent de-risking wave. That commercial Bank has since frequently changed its correspondents and relied on unstable partners, placing the RBV's relationship with its USD correspondent—the Federal Reserve—under strain. To safeguard its relationship with the Federal Reserve, the RBV has ceased USD transactions with that bank, permitting it instead to receive its weekly allocation in AUD.

54. **Intervening through allocations in two currencies blurs the RBV's message and increases the potential for arbitrage.** Since the AUD/USD cross rate moves throughout the day, allocating AUD and USD based on prices prevailing at the market opening, creates two different VUV/USD (or two different VUV/AUD) market prices during the day and harms price discovery. Also, a more sophisticated importer needing FX can either transact in USD with a bank or AUD with a different bank. Given this free option, this importer will obtain the best available rate depending on the intraday movement in the AUD/USD.

55. **Furthermore, the RBV trading outside of its original FX policy's perimeter with one commercial bank, exposes the RBV to reputational risk.** Other banks not having access to such a privilege might complain that they are not treated fairly and challenge the RBV's integrity.

Buy and Sell Back Operations

56. **The RBV has implemented Buy and Sellback (B&S) operations to allow commercial banks to retain access to their FX.** In the context of FX rationing, commercial banks are concerned that if they sell foreign exchange, they may be unable to access it when needed. The RBV has implemented an instrument allowing banks to sell their temporary excess USD while retaining access to these currencies at a prespecified date in the future. In this arrangement, commercial banks use the B&S facility to hedge against availability risk—not market price fluctuations. While the banks remain exposed to FX price movements, they are assured that the RBV will sell them back the same amount of FX when needed to meet their customers' demand. The reserves obtained through this instrument are pooled with the other FX reserves and the outstanding amount is not communicated to the market.

57. **The B&S arrangement hinders FX market development.** Although it eliminates the commercial banks' FX risk associated with hoarding, B&S does not address the hoarding itself, leading to unintended consequences. While the scheme helps commercial banks manage their FX risk, it reduces their incentive to actively unwind excess FX positions by: (i) participating in interbank

[15] While this falls outside the scope of the current mission, the RBV should consider assigning greater weight to the liquidity objective within its SAA to avoid having to use such administrative measures.

trading; (ii) offering more competitive pricing to clients; or (iii) developing innovative instruments—such as FX forwards—to bridge the timing mismatch between their current surpluses and future client demand.

58. **In addition to its substantial unintended consequences, the B&S arrangement is affected by the same implementation challenges observed in the FX allocation system arrangement:**

- The implementation is not aligned with the Notice[16]. No maximum amount is set in the Notice, but the RBV caps the B&S weekly maturing amount for each bank at USD 500,000; and

- According to FMD, the cap on the B&S size is required to protect the liquidity in the RBV's FX reserves.

Other Potential Developments

59. **Although there are indications of potential interest in more sophisticated foreign exchange operations, structural weaknesses in the domestic market pose significant constraints.** A bank has expressed interest in transacting bona fide FX swaps with the RBV, rather than simple B&S transactions. Even though this could be a positive development, this appears premature, given the current underdevelopment of the domestic money market, a situation further compounded by the absence of an adequate legal, risk management, and settlement framework.[17]

Communication

60. **Market participants are unaware of the Vanuatu's FX regime.** There is no information available on the RBV website regarding the exchange rate peg or the RBV objectives regarding the VUV. Furthermore, the mission met treasurers and senior representatives of three of the five commercial banks operating in Vanuatu's FX market. Only one of these executives: (i) was aware of the VUV being pegged to a basket of currencies; and (ii) had an opinion, at the end of the day, about what was going to be the USD price on the next morning's opening based on the basket components' movements.

61. **There is no forum with commercial banks and no communication from the RBV on FX related issues.** Although the RBV discusses FX flows covered in its weekly allocation process with each participating bank, it does not use these communications to: (i) gather additional information on other flow dynamics; (ii) gauge the sentiment of commercial banks regarding broader FX market issues; or (iii) perform other analysis. Furthermore, the RBV does not hold meetings to communicate its views and obtain comments from commercial banks.

62. **Enhancing transparency and stakeholder engagement in the FX market is essential for fostering a more competitive banking environment.** Banks have reported reaching out to the RBV to obtain information on their market share in the FX market; however, this data has not been provided. Enhancing communication and demonstrating responsiveness to stakeholder requests regarding the FX market could not only improve transparency but also incentivize banks to be more proactive and competitive with their clients, ultimately driving efforts to improve their market ranking.

[16] See Notice to commercial banks dated March 16, 2016).

[17] Even though the RBV is not ready to use FX swaps, it should not be a hurdle for commercial banks to offer FX forwards and FX swaps to their clients. One bank confirmed it was doing so.

C. Governance

FX Policy

63. **A central bank's FX policy governs its activities in its FX market.** An FX policy should cover, *inter alia*: (i) the central bank's objectives in the FX market;[18] (ii) its chosen FX regime; (iii) the specifics of the regime; (iv) the governance framework; (v) the instruments available to the central bank; (vi) the intervention policy covering, *inter alia*, the timing, triggers and constraints related to the central bank's interventions, as well as the criteria for counterparty selection to ensure clarity and transparency; (vii) the communications with FX market participants; and (viii) the general regular review process of the policy. This key document should be integrated in the global framework decided by the Board and the MPC to achieve a more consistent and predictable decision taking.

64. **The RBV lacks a formal FX policy document.** The RBV FX policy document was lost and authorities were only able to retrieve a draft policy document covering financial markets and dating back over 20 years. This gap underscores the absence of a current and formally adopted policy framework. Operating in the FX market solely on the basis of customary practices exposes the institution to, *inter alia*: (i) policy inconsistency and credibility risk; (ii) macroeconomic policy misalignment; (iii) market distortion and mispricing; (iv) legal and governance risk; (v) increased risk of political interference; and (vi) less adapted risk management and control.

Operations Manual

65. **The RBV has a procedure manual outlining each step of its front-office (FO) FX activities.** This document serves as a reference for staff in carrying out their responsibilities and helps institutionalize corporate memory. However, no equivalent documentation exists for the corresponding middle-office functions.

66. **The front-office operations manual is outdated and no longer reflects current practices.** Many of the procedures contain reference information that has been inaccurate for over five years. This exposes the RBV to undue operational risk, as an incomplete and outdated manual may create a false sense of assurance regarding the robustness of internal controls.

67. **The RBV successfully passed a critical test of its Disaster Recovery Plan (DRP) FX market module following the tragic December 2024 earthquake.** The RBV's DRP was unfortunately tested under real conditions. Despite the challenging circumstances, commercial banks consulted by the mission expressed satisfaction with the swift recovery and timely communication from the RBV on FX market related issues.

D. Market Regulation

Foreign Exchange Controls

68. **There are no FX controls in Vanuatu.** The only constraints to FX flows are linked to the RBV's allocation process and its accompanying administrative hurdles discussed *supra*.

[18] I.e., domestic price stability in Vanuatu

Net Open Position (NOP) Limits

69. **The RBV has no FX NOP framework despite longstanding plans for implementation.** Since at least 2016, the RBV has had an ongoing project aimed at introducing FX NOP limits. Originally motivated by prudential objectives, the initiative seeks to reduce foreign exchange risk exposure among commercial banks. The last iteration of the project would not be constraining i.e., the commercial bank's FX NOP could not exceed 15 and 25 percent of the commercial bank's capital on a single holding and aggregate currency position respectively.

70. **FX NOP limits also offer significant market development externalities that are currently being overlooked**. By not implementing binding NOP limits, the RBV misses the opportunity to introduce forced buyers or sellers into the market. These positions' offloading could: (i) enhance price discovery through transactions with clients or interbank participants within the RBV's defined pricing bands; and (ii) stimulate market innovation by encouraging banks to offer forward contracts to their clients.

FX Market Convention

71. **An FX market convention is a key component of an FX market's framework.** This memorandum of understanding states all the specifics of FX dealing in the currency and lists the requirements and expected behavior from market participants.

72. **The Vanuatu's FX market framework lacks a market convention.** Trading is minimal and no incident or non-professional behavior was signaled by the RBV or the banks met by the mission. However, the FMD staff and each commercial bank should be informed of, and abide by, market conventions as well as common behavioral standards and ethical requirements.[19]

73. **Currently, there is no basic certification or education requirement for FX dealers at the RBV or the commercial banks.** The market knowledge of some of the FX market participants is limited as the Vanuatu financial markets is small and in its infancy. A commercial bank met by the mission mentioned that the pool of qualified and experienced staff was limited.

E. Recommendations[20]

74. **Initiate a systematic FX market intelligence framework.** The RBV's broader FX market intelligence process should, *inter alia*, analyze: (i) clients' transactions; (ii) commercial banks' margins; (iii) trends in the invoicing currencies; (iv) individual and aggregate NOP; and (v) at a macro level, trends in the basket's components price movements. Commercial banks' weekly reporting on their interbank activity should also include information on upcoming transactions, on a forward-looking basis. This would also provide the basis to detect and analyze volumes' cyclicalities and trends as well as potential clustering of activity.

75. **Increase the robustness of the Excel based procedure used to calculate the basket value.** The following changes should be considered:

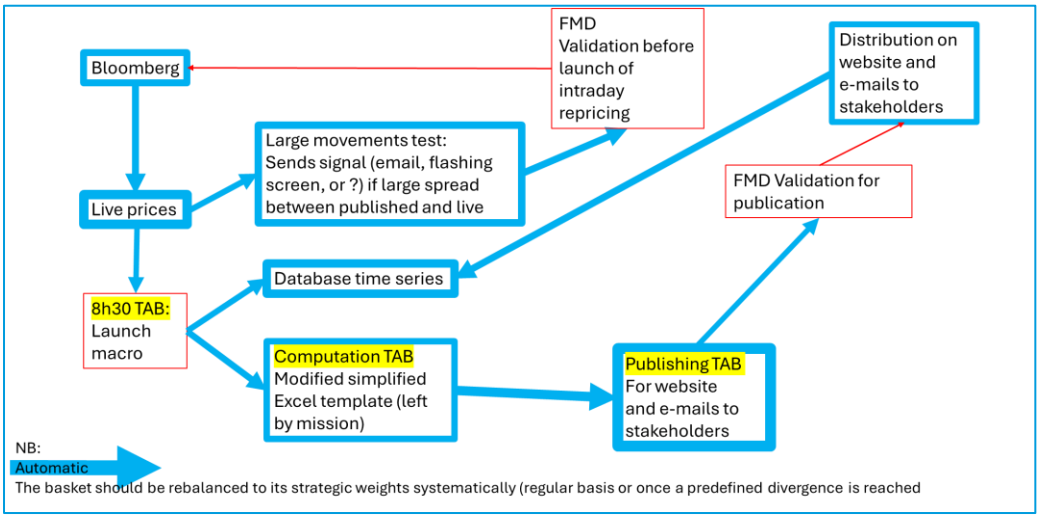
[19] The RBV's internal code of conduct applies to its staff dealings. However, market participants are not constrained by the same rules.

[20] The recommendations in this section are also reflected in Table 1, which provides a summary of key measures proposed by the mission.

- The current Excel spreadsheet and its vulnerable cells should be password protected in order to avoid voluntary or involuntary tempering.
- The procedure for the morning input of FX prices should be automatized. The file should be documented
- A second pricing file should run in parallel. This file should be automatically fed FX prices through different data sources. This second Excel sheet should be used to validate the published prices.

Figure 6 describes how these changes would be integrated in a new overall process.[21]

Figure 6. New Process for Daily FX Rate Publication



Source: Mission.

76. **Recalculate the day's official dealing price once the spread between the start of day basket value and its intraday value reaches a predefined trigger.** The RBV should consider using the live feeds of its basket's components to automatically initiate an intraday repricing of the basket if a predefined intraday gap threshold is reached. Once triggered, the same procedure as the standard morning routine should be performed without delay.

77. **Remove the USD 300,000 per bank weekly cap on FX allocations.** This administrative rationing of FX does not reduce the aggregate demand but creates incentives for inappropriate behavior and undue friction in the market. Its operational implementation also uses IC members' time inappropriately. However, at a later stage, the minimum transaction amount with the RBV (currently USD 250,000) should be increased to enhance market efficiency and allow for greater price discovery.

78. **As long as the RBV's FX regulation allows capital account transactions, eliminate the hurdle for obtaining FX for capital account transactions from the RBV.** Because of the fungibility of the banks' clients FX demand, this limit only provides an artificial sense of comfort.

[21] An addition layer should be added to the process to ensure market movements in the components of the basket do not lead to weight drifting. RBV could consider changes rebasing the portfolio based on regular basis (e.g. yearly) or on price divergence (e.g., once a component's actual weight has diverged by more than five percent from its target weight).

79. **Deal only in USD when allocating FX to banks.** In the context of its minuscule FX market, the RBV should stick to one intervention currency to not obfuscate the price discovery potential and be seen as favoring one bank. If this is not possible because the bank under stress cannot find an appropriate correspondent, the RBV could consider widening significantly its bid-offer spread on its AUD allocations.

80. **Terminate the B&S arrangement.** This atypical mechanism hurts market development. Furthermore, it will become irrelevant once FX is no longer artificially rationed**.**

81. **Maintain its opposition to performing FX swaps with its domestic banks.** The fixed income market has to develop, and the proper infrastructure has to be in place for the RBV to consider introducing this instrument in its toolbox.

82. **Strengthen communication[22] related to the FX regime.** Better understanding of the framework will facilitate anchoring the public's expectations to the currency basket away from the bilateral USD/VUV exchange rate. It may not be necessary to disclose the specifics of the basket peg, such as the weights used as they may be treated as internal information. However, the RBV needs to share with the public a general description of the currency peg via its website and traditional media. The information on the website would include, *inter alia*: (i) all up-to-date applicable notices; and (ii) key elements of the FX policy. The experience in implementing the basket peg should also be discussed in regular RBV publications (e.g., the Monetary Policy Statement) and public speeches by the Governor and the Deputy Governor.[23]

83. **Establish a structured dialogue framework through regular meetings with commercial banks to discuss developments and challenges in the FX market.** These meetings will update participants on the applicable rules and those that have been discarded or modified, and also discuss market-related issues. This meeting should take place quarterly or semi-annually. In view of the small financial markets in Vanuatu, this meeting would also cover monetary operations issues.

84. **Draft and adopt a formal FX policy.** The policy will guide and integrate formally all the RBV's FX market decisions and actions in its monetary policy framework.

85. **Maintain a digitalized library of all the RBV's governing documents.** Cloud-based services, if they satisfy the RBV's IT security requirements could be considered.

86. **Update the operation manual and ensure it covers fully the FX function's operational cycle.** The operation manual should contain the detailed operational memory of the organization and should allow a new member of the team to perform all the FX operations without assistance.

87. **Finalize and implement FX NOP regulation.** In addition to the potential excessive risk-taking by market participants, the absence of NOP limits does not allow the FX market price discovery mechanism to benefit fully from potential forced sellers or buyers.

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[22] Communication among market participants could also be enhanced through a platform for market participants to exchange their appetite to buy or sell USD. RBV could set-up such a platform to nurture interbank FX activity.

[23] The communication on the website should clearly explain its fixed exchange rate policy, provide information on foreign reserves management, detail the operational aspects that ensure the fixed exchange rate arrangement, and outline the intervention mechanisms used in the foreign exchange market. Additionally, it should emphasize the link between exchange rates and price stability while regularly publishing reports on foreign reserves and exchange rate developments.

88. **Develop an FX market convention and require all FX market participants to comply with its provisions.** This memorandum of understanding between the banks and the RBV would cover all the specifics of the Vanuatu's FX market and the expected behavior of its participants.

89. **Require FX market participants to obtain Association Cambiste International (ACI) certification.** Introducing basic training requirements for participants to be eligible to transact FX with the RBV and their clients will mitigate, *inter alia*, operational and reputation risk. The RBV and market participants would benefit from the professionalization of the FX market activity. The reference accreditation for this purpose is the ACI certification. This program would increase the knowledge about FX markets mechanics and ethics principles.[24]

IV. Areas for Capacity Building

90. **A follow-up mission could contribute further to the development of RBV's FX framework.** The next phase of this TA could assist in two main areas: (i) hands-on support to re-estimate the currency basket weights once monthly CPI data become available; and (ii) hands-on assistance to finalize the implementation of the other recommendations. In parallel, it could be useful to engage with staff to assess their experience in applying the Excel-based template for updating the weights using trade data, and to identify any areas where further clarification, refinement, or capacity building may enhance its sustainable use going forward.

[24] See Home | ACI Financial Markets Association (ACI FMA).

Annex I. Currency Basket Framework

Exchange rate volatility is linked to import prices volatility using a pass-through equation. The choice of invoicing currency in constructing the currency basket can significantly influence how changes in import prices respond to exchange rate fluctuations. We assume time lags in the pass-through and short-term pass-through model using the reduced form equation below.[25] Equation (1) establishes the relationship between changes in the log of the import price index and changes in the log of bilateral exchange rates.

$$\Delta[\log(\pi_t)] = \sum_{j=1}^{N} \beta_j \, \Delta[\log(e_{j,t-p})] + \varepsilon_t, \quad (1)$$

Where π_t : import price index at time t.

β_j : pass-through coefficient of exchange rate to import price index.

e_{jt} : bilateral exchange at time t.

p: number of lag.

N: number of trade partners.

Once the exchange rate pass-through (ERPT) is estimated, the optimal currency weights can be derived under the assumption of a specified value for the regularization parameter λ. The volatility of import prices, as a function of exchange rate volatility, can be expressed as follows:

$$\min_{w} w^T B \sum Bw + \lambda \left|\left|w - t\right|\right|^2, \qquad (2)$$

Where:

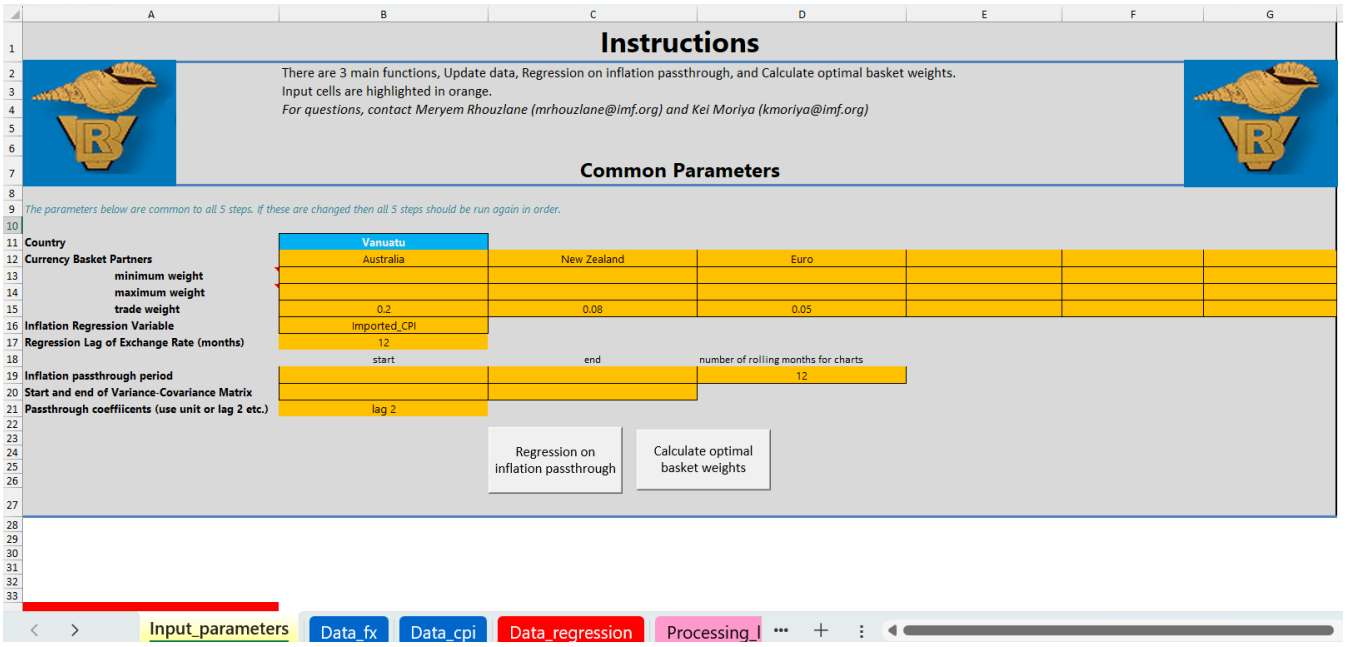
- *w* is the vector of weights of the currency basket, and *t* is the vector of trade weights
- *B* is a diagonal matrix of ERPT
- *Σ* is the covariance of exchange rate changes
- λ is a regularization parameter to adjust between currency passthrough volatility ($\lambda \to 0$) and trade weights *t* ($\lambda \to \infty$)

Setting λ close to 0 will align the basket with minimum exchange rate and ERPT volatility, while a larger λ will align with trade weights *t*. The value of λ should be set with these considerations in mind. If the ERPT (*B*) cannot be determined reliably, it makes sense to align with *t*.

[25] The mission kept the reduced form specification as simple as possible to ensure the model remains tractable and to facilitate the derivation of a closed-form relationship between import price and exchange rate volatilities.

Annex II. Excel and Python Tool for Computing Optimal Weights

The optimal basket calculation involves multiple numerical steps which include regressions and optimization. To provide the RBV with a tool that is easy to use but still able to do all calculations, an Excel file linked to Python code was provided to the RBV. The cells for data in the Excel file can be edited as a typical Excel file, and additional buttons are provided to call the necessary Python code and generate output in the Excel file. In this way the RBV can run the code without having to learn a new language. This sheet contains all of the user input cells as well as the three buttons to call the Python code for various functions. A manual is provided to the RBV's staff for how to run the Excel Application.



Annex III. Template for the Memorandum of Understanding (MoU) between the RBV and the VBoS

Section Name	Description of Section	Suggested Guidance
A. **Purpose**	This section outlines the objectives and scope of the MoU.	i. This MoU sets out the terms for cooperation between the **RBV** and the **VBoS**, hereafter, the Vanuatu Bureau of Statistics in sharing information and data, and joint procedures to support the implementation of monetary policy by the **RBV**. ii. By signing this memorandum, the parties agree to cooperate on information sharing and recognize the responsibilities set forth in this document and all related appendices.
B. **Preamble**	This sections sets up the legal context for the respective agencies to operate, and agree to the MOU.	iii. The MoU sets the technical and operational framework governing the regular exchange of statistical data between the VBoS and the RBV. The objective is to facilitate timely and consistent access to key datasets, particularly trade and Consumer Price Index (CPI) data, for the purpose of economic and monetary analysis. The MoU outlines: (i) the respective roles and responsibilities of the VBoS and the RBV; (ii) the frequency, format, and channels for data sharing; (iii) the procedures for ensuring data quality, confidentiality, and consistency; and (iv) mechanisms for regular coordination and review to support the effective implementation of this data-sharing arrangement.
E. **Procedure in the Event of a Disaster**	Steps to follow in case of a disaster affecting data reporting.	iv. In exceptional circumstances, the parties may agree to a temporary reduction in reporting and data deadlines and may use an alternative electronic platform. Contact details for disaster recovery are listed in the technical annex.
F. **Confidentiality**	Rules for maintaining the confidentiality of shared information, are applicable, as the parties will follow non-disclosure	v. The central bank should not publish or disclose any trade, CPI, or other statistical data received from the VBoS, whether forecasted or realized, without prior authorization from the data provider. However, the RBV may publish aggregated indicators or derived

		rules and use non-public information only internally.	statistics that do not reveal confidential source data, such as macroeconomic analyses or summaries consistent with its monetary policy communication practices. Conversely, the VBoS shall not publish or disclose any forecast or realized information related to monetary policy operations or decisions unless explicitly authorized by the central bank.
G.	**Amendment Procedure**	Processes for making amendments to the MoU.	vi. There are two procedures: a general amendment procedure requiring mutual consent of the parties or their alternates, and a simplified amendment procedure for specific paragraphs, which can be amended by mutual consent of local management. Lists of authorized signatories for each amendment procedure are maintained and exchanged.
H.	**Periodic Review and Revisions**	Guidelines for reviewing and revising the MoU periodically.	vii. The parties will review the MoU every five years and conduct general amendments, as necessary.
I.	**Termination**	Conditions under which the MoU can be terminated.	viii. Either party may terminate the MoU with six months' notice. The MoU enters into force one month after the day of its signature.
J.	**Signatures**	Section for the signatures of the parties involved, and should be agreed at the highest level for the respective parties.	ix. Insert the date and the names of the representatives from the respective institutions to sign the MOU.