



VANUATU

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Vanuatu, the following documents have been released and are included in this package:

- A **Press Release**.
- **The Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on July 23, 2025, with the officials of Vanuatu on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 8, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2025 Article IV Consultation with Vanuatu

FOR IMMEDIATE RELEASE

- Vanuatu's growth is expected to recover to 1.7 percent in 2025 and 2.8 percent in 2026 following recent shocks, with inflation in its target band and foreign reserves supported by external aid, remittances, and a recovery in tourism.
- The outlook, however, is subject to significant downside risks and structural challenges, reflecting heightened global uncertainties and domestic vulnerabilities.
- Policies should focus on addressing immediate risks to growth and stability, followed by a renewed commitment to rebuild buffers and tackle structural issues through policy reforms.

Washington, DC – September 25, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Vanuatu and endorsed the staff appraisal without a meeting on a lapse-of-time basis.^{1,2}

Vanuatu's growth is expected to gradually recover to 1.7 percent in 2025 after a marked slowdown last year, and to further strengthen to 2.8 percent in 2026. The capital city, Port Vila, was hit by a major earthquake in December 2024, following the liquidation of Air Vanuatu in May 2024 and three cyclones in 2023. Headline inflation has returned to the Reserve Bank of Vanuatu (RBV)'s target band and is projected to edge higher, remaining within the band, though upside risks remain. The fiscal deficit is projected to widen in 2025 due to weaker revenues and an increase in expenditures related to post-earthquake rebuilding, support for households and Air Vanuatu's operational needs. The current account deficit is projected to remain wide in 2025 and 2026 due to higher imports, while foreign reserves are projected to remain adequate—supported by external grants, remittances, and a gradual recovery in tourism earnings—albeit on a downward trajectory. Monetary is broadly appropriate to support the growth recovery amidst a stable inflation outlook and adequate foreign reserves. The financial sector remains stable, but vulnerabilities persist, including elevated non-performing loans.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Uncertainty around the outlook remains high and the balance of risks is tilted to the downside. With the full impact yet to be determined, the post-earthquake recovery path and tourism sector prospects remain highly uncertain. Uncertainty over domestic connectivity, a deeper or longer-lasting slump in Economic Citizenship Program (ECP) revenues, delays in reconstruction, and external demand shocks including from ongoing global trade tensions could further strain growth, revenues, and reserves. Vanuatu also faces high risk of natural disasters, skills shortages, governance weaknesses, and political fragmentation which increase vulnerabilities.

Executive Board Assessment

In concluding the 2025 Article IV consultation with Vanuatu, Executive Directors endorsed the staff's appraisal, as follows:

The post-earthquake recovery is underway. Strong donor support, partial resumption of domestic air services, and a rebound in agricultural production are supporting activities. However, the pace of recovery in 2025 will remain constrained by capacity bottlenecks, limited domestic connectivity, and delays in project execution. A more pronounced recovery is anticipated in 2026 as reconstruction gathers momentum, critical infrastructure is restored, and tourism capacity normalizes. Despite a comfortable reserves position, Vanuatu's external position is assessed to be moderately weaker than the level consistent with fundamentals and desirable policies in 2024.

The balance of risks is tilted to the downside. Key domestic vulnerabilities stem from the uncertain future of Air Vanuatu, sustainability of the Citizenship program, and capacity constraints in executing public investment. To mitigate these risks, the authorities should urgently adopt a credible business plan for Air Vanuatu and strengthen its management and financial standing, enhance governance and transparency of the Citizenship Program, and build greater resilience in public investment management to ensure timely and efficient project delivery. On the external front, Vanuatu remains highly exposed to natural disasters, commodity price volatility, and weaker-than-expected global demand, including from rising global trade tensions.

A series of recent shocks have led to deterioration in the underlying fiscal position, leaving little policy room to contend with future risks. VAT revenues have held up thanks to the resilience in the domestic economy and the authorities' enhanced efforts in collection, while other revenue streams weakened. ECP revenues remain significant but are facing a structural decline, underscoring the need for stronger domestic revenue mobilization, and for subjecting ECP processes to best international practices. On government spending, the planned increases in public employee compensation and allowances are substantial, setting a negative precedent on expenditure prioritization, likely to create persistent deficits that would need to be financed with relatively expensive domestic debt, which has experienced a sharp increase. This, combined with the increasing susceptibility to natural disasters and climate-related shocks and the high reliance on donor grants warrants building adequate buffers during non-crisis periods.

While the fiscal expansion envisaged by the budget in 2025 is warranted given ongoing shocks, a holistic and credible fiscal strategy is urgently needed to restore policy buffers

and safeguard medium-term fiscal sustainability. Careful prioritization and expenditure management in the remainder of 2025 should be deployed to avoid an excessive fiscal expansion, and a medium-term consolidation plan should be urgently implemented. Strengthening the management and financial standing of Air Vanuatu's operation, including by adopting a credible business plan, is urgent to avoid posing a protracted burden on the budget, as well as on public liabilities. The fiscal responsibility framework should be reinforced and provided with a clear anchor and credible operational rules to underpin responsible public financial management. This will guide the medium-term fiscal consolidation strategy to rebuild policy buffers through a comprehensive package of robust revenue mobilization and expenditure rationalization measures. Fiscal consolidation and a prudent debt management strategy are critical for addressing government funding vulnerabilities and alleviating domestic financing constraints, which have resulted in a heavy reliance on monetary financing by the RBV.

Improving governance and reducing risks of corruption are critical for long-term development. Effective implementation of the CGBE Act along with adequate resourcing of the GBE unit, will help bolster the oversight and evaluation of SOEs performance. Additionally, enhancing transparency and governance of existing revenue streams, especially the Citizenship program, and digitizing systems remain key for compliance. The implementation of the PFM Roadmap and the new financial management system will also strengthen PFM transparency.

Monetary policy should remain agile, and RBV reforms should be prioritized. The current monetary policy stance is appropriate given the benign inflation outlook, but the RBV should be prepared to respond if inflationary pressures arise. To improve the effectiveness of OMOs in reducing excess liquidity, monetary financing should be gradually phased out and only allowed under exceptional circumstances going forward. The ongoing legislative reforms to the RBV Act to strengthen its independence and autonomy in line with best practices are critical and should be prioritized. In particular, safeguarding the RBV's financial and operational independence requires a strong balance sheet, a transparent approach to profit retention and distribution, and the removal of political influence in policy decisions.

Stronger safeguards are needed to preserve financial stability. High non-performing loans, combined with low provisioning and a strong sovereign-bank nexus, raise financial stability risks. Strengthening supervisory capacity, enhancing loan recovery frameworks, and implementing a modern bank resolution framework will be critical to bolster resilience. Effective implementation of the AML/CFT framework, targeted measures to address risks from the Economic Citizenship Program and virtual assets, and enhanced cross-border cooperation are essential to preserve correspondent banking relationships. Expanding financial inclusion, particularly in underserved communities, should be pursued in parallel to ensure that financial sector development supports inclusive and sustainable growth.

Concerted and sustained actions are needed to address structural challenges to build long-term resilience and inclusive growth. Strengthening resilience—by investing in more robust infrastructure and improving disaster preparedness—remains essential to

safeguard development gains and reduce the economic scarring from repeated climate- and disaster-related shocks. Leveraging the benefits of overseas labor mobility programs to support skills development and entrepreneurship, investing in quality education and vocational training, promoting women's participation in the formal labor force, and fostering an enabling business environment are critical for promoting private sector growth.

Table 1. Vanuatu: Selected Economic Indicators, 2021-2026

Population (2021): 312,039

IMF quota: SDR 23.8 million (0.01 percent of total)

Main products and exports: Kava, coconut oil, copra, cocoa, beef

Key export markets: New Caledonia, Australia, New Zealand

Per Capita GDP (2021): US\$ 2,952

Literacy rate (2018): 87.5 percent

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|--------|----------|--------|----------|--------|--------|
| | | Estimate | | Forecast | | |
| Output and prices (annual percent change) | | | | | | |
| Real GDP | -1.6 | 5.2 | 2.1 | 0.9 | 1.7 | 2.8 |
| Consumer prices (period average) | 2.3 | 6.7 | 11.2 | 1.2 | 1.7 | 2.2 |
| Consumer prices (end period) | 0.7 | 11.2 | 7.0 | -0.7 | 2.2 | 2.3 |
| Government finance (in percent of GDP) | | | | | | |
| Total revenue | 46.8 | 35.5 | 40.6 | 38.7 | 33.0 | 31.9 |
| Taxes | 15.7 | 15.0 | 17.1 | 18.0 | 16.1 | 16.8 |
| Other revenue | 14.8 | 8.5 | 8.3 | 10.4 | 7.6 | 6.5 |
| Grants | 16.3 | 12.1 | 15.3 | 10.4 | 9.3 | 8.6 |
| Expenditure | 44.4 | 42.0 | 41.6 | 41.1 | 38.0 | 36.6 |
| Expense | 38.8 | 37.2 | 35.9 | 33.9 | 33.1 | 32.4 |
| Net acquisition of non financial assets | 5.5 | 4.8 | 5.7 | 7.2 | 4.9 | 4.2 |
| Net lending (+)/borrowing (-) | 2.4 | -6.5 | -0.9 | -2.3 | -5.0 | -4.7 |
| Public and publicly-guaranteed debt (end of period) | 49.5 | 43.6 | 42.6 | 46.2 | 49.4 | 52.2 |
| Domestic | 8.8 | 9.5 | 10.3 | 13.2 | 16.1 | 19.6 |
| External | 40.7 | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 |
| Money and credit (annual percentage change) | | | | | | |
| Broad money (M2) | 14.2 | 5.6 | -0.8 | 5.7 | -0.7 | 3.0 |
| Net foreign assets | 7.8 | -0.1 | 0.8 | 11.9 | -9.2 | -6.5 |
| Domestic credit | 7.0 | 21.4 | 11.9 | 10.1 | 11.9 | 12.3 |
| Of which: Credit to private sector | 0.3 | 6.1 | 5.9 | 5.4 | 4.8 | 4.0 |
| Interest rates (in percent, end of period) 1/ | | | | | | |
| Deposit rate (vatu deposits) | 0.5 | 0.4 | 0.4 | 0.3 | ... | ... |
| Lending rate (vatu loans) | 9.4 | 9.0 | 8.8 | 8.6 | ... | ... |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account | -11.7 | -17.6 | -6.6 | -15.4 | -11.6 | -11.6 |
| Trade balance | -25.4 | -28.6 | -30.4 | -24.1 | -29.4 | -30.7 |
| Exports of goods | 5.7 | 7.0 | 5.4 | 6.6 | 6.3 | 6.3 |
| Imports of goods | 31.1 | 35.6 | 35.8 | 30.7 | 35.7 | 37.0 |
| Travel receipts | 0.2 | 3.8 | 12.0 | 10.0 | 11.2 | 12.6 |
| Gross Remittances | 20.6 | 17.8 | 15.0 | 15.2 | 16.3 | 15.8 |
| Capital and financial account | 22.2 | 9.1 | 3.6 | 15.2 | 7.6 | 6.3 |
| Of which: Foreign direct investment | 3.7 | 2.3 | 1.1 | 4.2 | 3.7 | 3.3 |
| Overall balance | 5.5 | -2.5 | -3.0 | 1.7 | -4.0 | -5.3 |
| Gross international reserves (in millions of U.S. dollars) | 664.8 | 638.5 | 604.5 | 622.9 | 577.6 | 515.6 |
| Gross international reserves (in months of prospective G&S imports) | 11.7 | 11.6 | 11.2 | 10.5 | 9.4 | 8.1 |
| External debt service (in percent of GNFS exports) | 16.4 | 40.6 | 26.9 | 14.6 | 7.9 | 9.0 |
| Exchange rates 2/ | | | | | | |
| Vatu per U.S. dollar (period average) | 112.9 | 117.6 | 118.1 | 122.3 | ... | ... |
| Vatu per U.S. dollar (end of period) | 112.2 | 117.2 | 116.5 | 123.8 | ... | ... |
| Memorandum items: | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 921 | 1,035 | 1,125 | 1,090 | 1,119 | 1,176 |
| GDP per capita (U.S. dollars) | 2951.7 | 3206.3 | 3371.2 | 3156.5 | 3132.9 | 3184.8 |

Sources: Vanuatu authorities; and IMF staff estimates and projections.

1/ Weighted average rate of interest for total bank deposits and loans.

2/ The vatu is officially pegged to an undisclosed basket of currencies.



VANUATU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

September 8, 2025

KEY ISSUES

Overview. Vanuatu has faced a perfect storm of shocks. The national carrier, Air Vanuatu, went into liquidation in May 2024, the capital city experienced a major earthquake in December 2024, Economic Citizenship Program revenues remain at risk, and the export sector is grappling with an uncertain global environment. Following Parliament dissolution in November 2024, the government elected in January 2025 committed to strengthening political stability, rebuilding critical infrastructure, enhancing revenue collection, and improving public sector efficiency. Near-term challenges are paramount, as is setting the country on a path of sustainable and resilient policies over the medium-term. Modest growth is expected in 2025 while post-earthquake reconstruction may foster an improved outlook for 2026; risks are skewed downward. Structural vulnerabilities related to governance, corruption, and natural disasters persist.

Main Policy Recommendations. There is an urgent need to address immediate risks to growth and stability, followed by a renewed commitment to rebuild buffers and address structural issues through policy reforms.

- **Fiscal policy** should balance near-term targeted support to the vulnerable segments of the economy after the earthquake and the urgent need to restore fiscal buffers via decisive consolidation over the medium-term. Accelerating fiscal reforms to enhance revenue mobilization and improve SOE performance and oversight will help minimize fiscal risks. Stronger budget planning, execution, and expenditure rationalization are essential for achieving positive fiscal outcomes.
- **Monetary policy** has tightened and is broadly appropriate for maintaining price stability, but monetary financing should be phased out. The exchange rate peg serves as a nominal anchor but requires close review and monitoring.
- **Financial sector policy** should address gaps in regulatory, supervisory, and resolution frameworks, and strengthen RBV's risk oversight and management.
- **Structural policies** should prioritize addressing skills shortages, enhancing disaster-risk resilience, preserving financial integrity, and improving governance by reducing corruption, where key reforms should strengthen SOE oversight, enhance RBV governance and independence, and bolster effective implementation of the AML/CFT regime.

Approved By
Maria Gonzalez (APD)
and Jacques Miniane
(SPR)

A mission took place in Port Vila July 10–July 23, 2025. The mission team comprised Mike Xin Li (Head), Narayan Suryakumar, Yukun Ding (both APD), and Kalolaini Ranadi (Resident Representative Office, Fiji). Yew Keat Chong (World Bank) joined some of the meetings. Nghi Luu (OED) attended the mission. To-Nhu Dao and Puying Wang (both APD) performed analysis and supported the team, and Annia Bowen (APD) helped in the preparation of this report.

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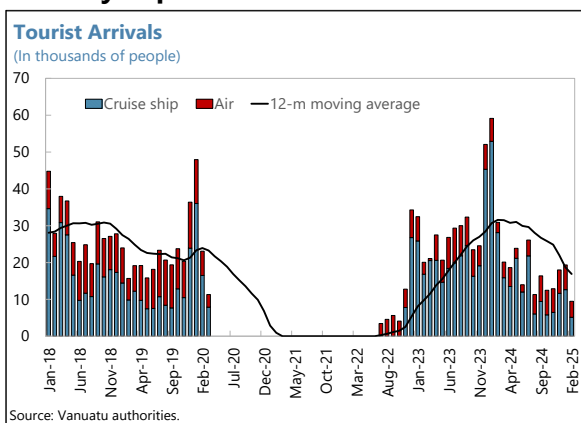
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CONTEXT AND RECENT DEVELOPMENTS

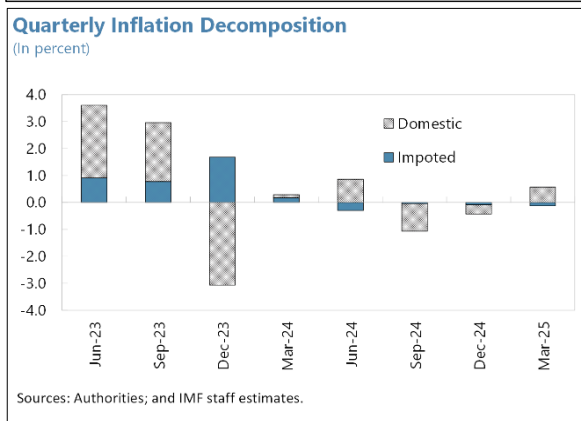
1. A new government was elected in January 2025, after the previous administration faced a no-confidence motion in late 2024. The new, five-party coalition government has pledged to stabilize governance, kick-start economic recovery, rebuild critical infrastructure, reform education services, and strengthen international partnerships.

2. Vanuatu was hit by a 7.3-magnitude earthquake in December 2024, with the capital city of Port Vila facing the largest impact. The earthquake caused 14 confirmed deaths and damaged a number of commercial buildings in the central business district and the cruise terminal in the capital. The relocation of many businesses to suburban areas and the robust donor support for reconstruction has helped cushion adverse impacts on the productive capacity of the economy, which has demonstrated resilience (Annex I). This said, the earthquake followed three severe cyclones in 2023 and the liquidation of the national carrier Air Vanuatu in 2024, compounding the strains and clouding the outlook.

3. Growth is projected to have slowed to a modest 0.9 percent y/y in 2024, weighed down by travel disruptions, weaker agriculture, and delayed public investment. Growth in the services sector slowed to 0.5 percent y/y (down from 2.0 percent y/y in 2023), largely owing to Air Vanuatu's liquidation and related tourism disruptions. Agricultural output suffered a reduction due to on-farm labor availability, partly related to seasonal overseas programs. The slower-than-anticipated implementation of the 2024 capital budget dampened growth in the industry and construction sectors.



4. Inflation continued to ease in 2024, in line with the softening in global commodity prices, with fluctuations mainly driven by domestic price movements. Inflation peaked at 11.3 percent in 2023, led by domestic food-price spikes after the cyclones disrupted agriculture. As those shocks eased, average annual inflation fell to 1.2 percent in 2024, aided by domestic disinflation, lower commodity prices, and a mild appreciation of the vatu against the Australian and New Zealand dollars, which reduced import costs.



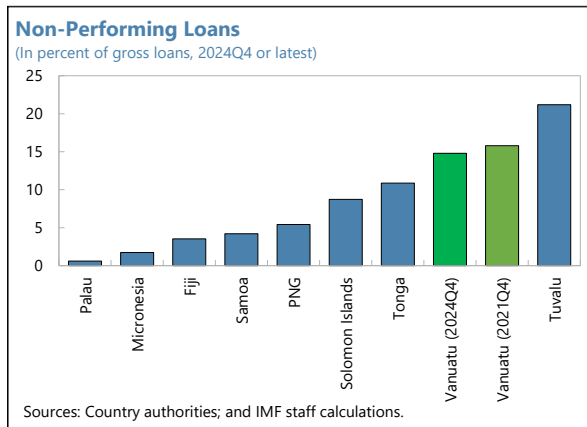
5. The fiscal deficit widened in 2024 despite revenue over-performance and spending under-execution. Preliminary data suggests the overall deficit widened to -2.3 percent of GDP in

2024, compared to -0.9 percent in 2023. Revenues from value-added tax (VAT) and the Economic Citizenship Program (ECP) were stronger than expected, but overall revenues declined by 1.9 percent of GDP relative to 2023, as grant support from donors eased from pandemic highs, broadly stabilizing at robust—yet lower—levels.¹ Expenditures were sharply lower than budgeted in 2024, as an agreement with Air Vanuatu’s creditors (Tf6) helped partially alleviate potential government expenses related to the airline’s liabilities and operating costs. Public debt rose marginally to 43 percent of GDP in 2024.

6. While the agreement between Air Vanuatu’s creditors in August 2024 averted extreme outcomes, the operational readiness and future of the national carrier remain uncertain.

Following the creditor agreement, the Supreme Court ordered the liquidation to be cancelled in October 2024 and that shares in the airline be transferred to a new government-owned special purpose vehicle (AV3 Limited).² Control of the company was subsequently returned to the directors and management team of the original airline. Air Vanuatu has partially resumed domestic operations, though demand from overseas tourists remains subdued due to the suspension of its IATA certification.³ The airline is entirely dependent on government guarantees to remain operational and is likely to require further subsidies to return to full operational capacity.⁴ Meanwhile, international airlines have significantly increased flight schedules to major cities like Port Vila and Santo, fully restoring international connectivity.

7. The banking sector remains well-capitalized and liquid, though underlying vulnerabilities persist. The reported average capital adequacy ratio stood at 24 percent in March 2025, well above the 12 percent regulatory requirement, reflecting an improvement since 2019. However, there is considerable variation among individual banks, with ratios ranging from 19 to 54 percent. The liquidity adequacy ratio registered at 48 percent in June 2025, also comfortably above the regulatory minimum.



¹ VAT may have continued to benefit from remaining grant inflows, on which VAT is levied.

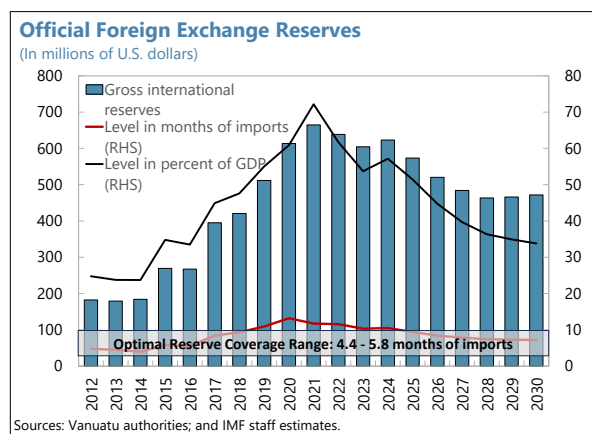
² Under the deed of compromise, AV3 agreed to pay USD 3.3 million into a fund to pay back creditors in three tranches (USD 1.1 million each). All three tranches have since been paid out, though there are some minor claims still outstanding.

³ The airline is operating three aircraft (one ATR, two twin otters) on domestic routes, but is currently servicing only 14 ports compared to 23 ports prior to the liquidation. The airline’s fleet have had recurring maintenance issues requiring them to be grounded periodically. The airline’s IATA certification was suspended in the wake of unpaid claims to IATA agents during the liquidation process; the airline is hopeful of repaying these claims and requesting the suspension be released by Q4 2025. Once the IATA certification is restored, the airline will be able to resume offering tickets on its domestic routes to international partner airlines and thereby boost ticket sales.

⁴ The restructured airline only has domestic operations and relies on government guarantees to secure fuel, machinery, maintenance and insurance. An ADB study ([ADB 2009](#)) estimated the need for an operating subsidy for the airline, though this analysis would need to be updated for current market conditions. An estimate of the actual subsidy amount was not provided in the published version.

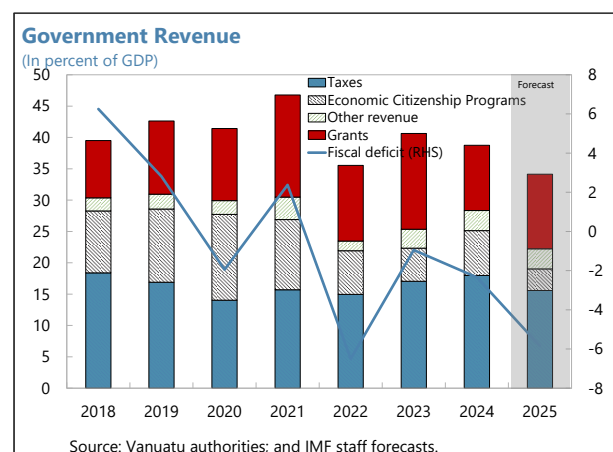
Despite this, persistently high non-performing loans (NPLs)—13.1 percent of total loans at the end of Q1 2025, primarily concentrated in the state-owned bank—combined with low provisioning and a pronounced sovereign-bank nexus, amplify financial stability risks. The stress tests conducted in the context of the 2024 Financial Sector Stability Review (FSSR) revealed vulnerabilities related to credit and foreign exchange liquidity risks.

8. The current account deficit is estimated to have widened to 15½⁵ percent of GDP in 2024, from 6.6 percent of GDP in 2023. The deterioration is driven by declines in both tourism (-16 percent y/y) and non-tourism earnings (transport -48 percent y/y and postal & couriers services -27 percent y/y). These sharp declines can be attributed to the liquidation of Air Vanuatu, as the payments to foreign (non-resident) carriers rose sharply. Gross international reserves stood at 10.5 months of import cover as of end-2024, above the Reserve Bank of Vanuatu's (RBV) target of 4 months, supported by the post-earthquake-related donor flows, but have been on a declining trend over the recent past. Notwithstanding a comfortable reserves position, Vanuatu's external position is assessed to be moderately weaker than the level consistent with fundamentals and desirable policies in 2024 (Annex IV).



OUTLOOK AND RISKS

9. Real GDP is expected to moderately recover in 2025, with inflation edging higher within the reserve bank's target range of 0 to 4 percent. Staff's baseline projections are based on an anticipated recovery in tourism, which is expected to drive a gradual and sustained improvement in the current account alongside the normalization of the goods trade balance. Real GDP growth is projected at 1.7 percent in 2025, driven by a rebound in air-arrival tourism—bolstered by increasing in international flights—alongside stronger agricultural output and higher construction activity (supported by grants from donors and insurance payments on damaged commercial properties). However, the speed of post-earthquake recovery is constrained by limited domestic connectivity and hotel capacity, a sharp decline in cruise ship tourism after the port was destroyed by the earthquake, labor shortage and weaker external demand amid heightened global uncertainties (Annex II).



⁵ Considering the substantial balance of payments revisions in the past, the 2024 current account data are likely to be revised again, particularly on merchandise imports, travel receipts, and primary income.

Growth is expected to pick up to 2.8 percent in 2026 as the cruise port reopens and other reconstruction efforts ramp up (Annex I). Inflation is projected to edge higher to an average of 1.7 percent y/y in 2025, driven by supply chain disruptions and higher rental prices following the earthquake, and stabilize around 2 percent y/y from 2026 and onward absent major supply shocks. The fiscal deficit is projected to widen to 5.0 percent of GDP in 2025, reflecting the impact of earthquake on revenues and the rise in expenditures related to post-earthquake rebuilding. The current account deficit is projected to remain wide at around 11½ percent of GDP in 2025 and 2026—as a gradual tourism recovery and resilient grants and remittances partly offset higher construction-related imports—before gradually narrowing over the medium-term as the trade balance improves. The 15 percent tariff⁶ on exports to the United States is expected to have a limited direct impact on Vanuatu, as exports to the U.S. comprise only 0.65 percent of its GDP. However, the country could be indirectly affected through reduced demand from key trading partners (Annex II). Foreign reserves are projected to average around 8 months of import cover into the medium-term (assuming no major external shocks)—supported by grants, remittances and a recovery of tourism receipts—but are on a downward trajectory.

10. Uncertainties around the future of Air Vanuatu and the citizenship program pose downside risks to fiscal outcomes. Despite the creditors' agreement in 2024, the future of Air Vanuatu remains uncertain. The business strategy of the airline and its path to profitability remain unclear and any outcome seems likely to have a significant bearing on fiscal costs.⁷ Separately, the Capital Investment Immigration Plan (CIIP) resumed in June 2025, following a suspension in March 2025 amid increased international scrutiny.⁸ However, a comprehensive review of the citizenship program, including an independent annual audit of the investment components, would be critical for mitigating associated risks ahead of the upcoming Mutual Evaluation Review in 2026.

11. Uncertainty around the outlook remains high, with the balance of risks tilted downwards. With the full impact yet to be ascertained, the post-earthquake recovery path is subject to large uncertainties (Annex I). Vanuatu's dependence on trade and tourism makes growth vulnerable to external shocks, including from global trade tensions (Annex II). Potential headwinds—such as labor shortages, capacity constraints, and governance or structural deficiencies—could further weaken activity. Climate-related disasters, volatile commodity prices, and sustained political instability add to the downside risks (Annex V).

⁶ This was reduced from 23 percent announced in April.

⁷ Budget expenditures in 2024 included a VT 2.34 billion (1.7 percent of GDP) payment to Air Vanuatu. The government is also estimated to spend VT 1 billion (0.8 percent of GDP) in the 2025 Budget for additional aircrafts, with possible additional subsidies and guarantees needed to continue operating the airline.

⁸ The CIIP program was temporarily suspended in March 2025 amid growing concerns over compliance with regulations. Amendments were made to the program in May 2025, to improve compliance on investments and reporting. Revenues from the citizenship program stood at around 7 percent of GDP in 2024, down from a high of 14 percent of GDP in 2020.

Authorities' Views

12. The authorities anticipate a stronger recovery in the near term, though they also share staff's concerns regarding potential downside risks. The Macroeconomic Committee has projected a GDP growth of 3.7 percent in 2025, driven by a rebound in tourism, recovery in agriculture, post-earthquake reconstruction activities and infrastructure spending under the 2024 Capital Budget. They specifically highlighted an expected robust growth in air arrivals—projected to be more than 50 percent higher than in 2024—and strong agricultural production, which experienced minimal disruption from the earthquake and benefited from favorable weather conditions. However, the authorities concurred with staff views about downside risks, particularly from slower-than-expected tourism activity to Vanuatu's outer islands—due to limited domestic connectivity—and delays in post-earthquake reconstruction. They also highlighted the economic benefits of recent government investments under the 2024 Capital Budget, which they view as crucial for supporting the economy and alleviating fiscal pressures. Regarding inflation, the RBV agreed with staff assessments and is closely monitoring for potential upside risks, including stemming from import-price volatility and the possibility of natural disaster shocks.

POLICIES FOR STABILITY AND RESILIENCE

A. Fiscal Policy

13. An accommodative fiscal stance in the near-term to support the post-earthquake recovery is appropriate, but it must be complemented by measures to avoid an unwarranted expansion. Staff projects a widening deficit from 2.3 percent of GDP in 2024 to 5.0 percent of GDP in 2025.⁹ This would be driven by an increase in spending to support the earthquake recovery efforts and continued support to Air Vanuatu following its restructuring last year. The government has allocated around VT 2 billion (1.5 percent of GDP) as a stimulus package towards the earthquake recovery in Port Vila, half of which has been drawn down by mid-year.¹⁰ The government has also committed to acquiring a new fleet for Air Vanuatu and covering any operational shortfalls, aiming to gradually restore domestic travel. While these expenditures will support the recovery in the near term, they will add to budget pressures and underscore the urgent need for improvements in Air Vanuatu's operations (below). In addition, the budget also envisages a sharp increase in public wages and allowances this year premised on projections of strong revenues and grants. A fiscal deficit of around 4.0 percent of GDP¹¹ would be broadly appropriate in 2025, allowing to accommodate needed reconstruction efforts. Averting an unwarranted fiscal expansion will require maintaining prudence in the remainder of the year, gradually phasing in spending to avoid overruns,

⁹ The authorities' estimates on growth and revenue outcomes in 2025 are relatively more optimistic in the aftermath of the earthquake, compared to staff projections.

¹⁰ The earthquake recovery support includes VT 1 billion in loan guarantees, around VT 560 million in wage subsidies to affected businesses, approximately VT 310 million towards demolition costs and around VT 60 million in grants to small businesses.

¹¹ This would entail an expansion of around 1.7 percent of GDP beyond the 2024 deficit of 2.3 percent of GDP.

ensuring that it is anchored on updated and realistic revenue and grant projections. Judiciously executing and prioritizing spending toward rebuilding critical infrastructure and protecting vulnerable households, while avoiding discretionary wage increases and non-essential goods and services outlays will enhance fiscal policy effectiveness and its growth impact. Low-priority capital projects should be deferred until implementation capacity improves, ensuring scarce fiscal space is deployed where returns are highest.

14. Vanuatu's debt is deemed sustainable, though the overall risk of debt distress remains "high". The favorable creditors' agreement for Air Vanuatu, along with the authorities' conservative external borrowing strategy and sustained donor support, has eliminated a significant portion of the associated debt risks identified in the last debt sustainability analysis. Premised on the authorities' efforts on prudent external borrowing and the ongoing support from their development partners to maintain grant financing at levels that are largely consistent with historical averages throughout the forecast period, this has helped ease the risk of external debt distress to moderate levels, down from high in the previous Article IV Consultation. While the immediate burden on external debt has eased following Air Vanuatu's restructuring, the government has assumed full ownership of the airline which leaves it with operational shortfalls to bear at least until the airline returns to profitability. Meanwhile, domestic debt is rising rapidly in the wake of persistent deficits, financed by the domestic financial sector, including RBV purchases. As a result, the overall risk of debt distress remains high with the PV of public-debt-to-GDP ratio marginally breaching its benchmark from 2032 onwards, compared to 2033 in the previous DSA. In this context, a decisive medium-term fiscal consolidation (below) and prudent debt management strategies are essential to avoid further deterioration in debt distress risks and to limit the trade-offs inherent in over-reliance on domestic financing. In light of funding vulnerabilities (Annex VI), new external financing should continue to be assumed only on concessional terms or through grants, to preserve FX reserves and avert any buildup of external debt risks. Given the improvements in the external debt profile and the partial recovery in fiscal metrics, Vanuatu's public debt is deemed to remain sustainable.

15. Decisive medium-term fiscal consolidation to rebuild buffers and safeguard sustainability is warranted. Under unchanged policies, large deficits are set to persist, adding to financing pressures, heightening the perception of fiscal dominance, and risking the crowding out of private credit. Projected debt dynamics suggest that shifting the primary balance to a small surplus is likely needed to gradually reduce public debt over the medium term, with a larger surplus required for more rapid debt reduction. This implies an ambitious adjustment of roughly 2–5 percent of GDP over the medium-term—with the pace calibrated based on how recent shocks and their fiscal impacts unwind, aligning with the adjustment needs identified in previous AIV staff reports.¹² Achieving this goal will require a well-balanced package of stronger revenue mobilization, and comprehensive expenditure rationalization, in line with previous IMF recommendations. This can

¹² The 2023 AIV Staff report proposes necessary adjustments needed on both the revenue and expenditure sides to avoid breaches of the fiscal anchor and ensure a credible medium-term fiscal strategy. The 2019 AIV Staff report explores alternate fiscal scenarios with the implementation of income taxes.

be underpinned by a revitalized fiscal anchor, allowing headroom for frequent natural disasters,¹³ and a clear operational deficit target that links the anchor to the annual budget process.¹⁴ Keeping spending under control will require urgently adopting a credible business plan for Air Vanuatu, as well as improving its management and financial standing—in particular, ensuring that the operational shortfalls financed from the budget and the need for financing guarantees are resolved. More broadly, strengthening public financial management systems—especially budget planning, expenditure controls, and SOE oversight would be essential to firmly anchor fiscal sustainability.

16. The very high incidence of natural disasters and limits in existing revenue sources imply an urgent need for mobilizing additional revenue and diversifying funding sources.

Recurring disasters in the recent past and the liquidation of the national airline have significantly increased risks to fiscal and public debt sustainability, adding further stress on the limited domestic revenues.¹⁵ Combined with the structural declines anticipated in the ECP revenues, policy buffers are negligible to face future shocks.¹⁶ Comprehensive revenue measures are therefore necessary to rebuild fiscal buffers, including the introduction of personal income and/or corporate tax, accelerating measures to bolster VAT collection and exploring additional excise taxes and duties. Expediting the collection of dividends from SOEs and safeguarding ECP revenues through broad-based reforms, fostering transparency and aligning with the best international practices will also be critical to reduce revenue risks¹⁷. The limited public revenue has spawned fiscal deficits that increasingly rely on the RBV as a domestic financing source. This points to an urgent need for diversifying the domestic investor base by bolstering the government's debt management strategy and developing the domestic bond market (Annex VI).

¹³ The analytical work on resilience investment needs (Annex VIII) contributes to calibrating the fiscal policy framework while considering natural disaster risks.

¹⁴ See 2024 Article IV Staff Report and Annex VII for details on the fiscal framework.

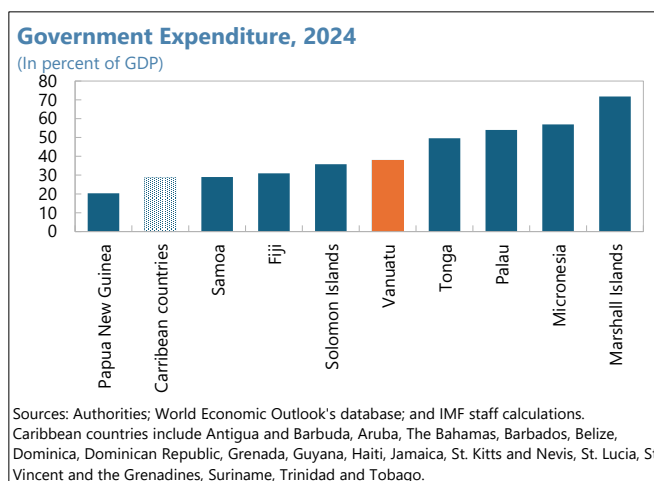
¹⁵ See Annex VI for details on Vanuatu's funding profile and vulnerabilities.

¹⁶ The significant increase in ECP revenues recorded in the first half of 2025 likely reflects recent changes to the Citizenship program, including the use of invoicing through the government's financial management system, which remains to be verified if the actual receipts are commensurate with the invoices.

¹⁷ The Commission of Inquiry (Col) report on the Citizenship Program, currently under review by the Justice Minister, is expected to provide insights on any governance irregularities within the program. Moreover, compliance with the Citizenship Regulation Order needs to be scrutinized, to ensure transparency in fees collection and diligence checks.

17. While government expenditures remain comparable to peer countries, persistent deficits suggest a need to better align spending with pragmatic revenue projections.

Government spending remains comparable to peer countries (see text figure), though recent increases in current expenditures (especially wages and allowances) have come at the expense of a decline in investment in essential infrastructure. This has driven current spending to an average of around 35 percent of GDP since 2020, compared to 27 percent in the preceding five years. In contrast, capital expenditures have averaged around 6 percent of GDP since 2020, down from 10 percent in the preceding five years. Weak project execution and sustained under-spending on the capital budget has slowed disbursements of donor project grants, weighing on potential revenue streams. There is ample scope for reprioritizing expenditures, particularly with regard to recent increases to public employee compensation and allowances (including those pertaining to the Government Remuneration Tribunal (GRT)). Boosting investment spending would also be beneficial, particularly towards growth-enhancing sectors (e.g. agriculture and education).



Authorities' Views

18. Authorities concurred with staff views on the urgent need to rebuild fiscal buffers to ensure fiscal and debt sustainability. They acknowledged importance of implementing fiscal reforms swiftly. The authorities have a more optimistic view regarding the earthquake's impact compared to staff's fiscal projections. They indicated that revenues have surprised on the upside despite the earthquake, including from the ECP, and the administration was preparing a holistic revenue strategy to enhance revenues, including via: a) exploring options in the medium term to broaden the tax base, including by introducing a personal income and corporate tax; b) fast-tracking the procurement of the purchase of a new VAT monitoring system to meet the 2025 budget target; c) undertaking a full review of the Excise Tax Act and import duties to help fill any revenue gaps; d) increasing the high value procurement threshold from VT10 million to VT30 million, and, e) collecting dividends from the SOEs by effectively implementing the GBEU Act. The authorities acknowledged challenges to sustain ECP revenues and pointed to several important measures undertaken to address governance and transparency issues in the citizenship program. Given the impact of the earthquake, they anticipated increased spending on recovery efforts this year and hoped to tighten expenditures in the 2026 Budget cycle. They acknowledged the sharp increase in spending on wages, allowances, travel and attributed some of these increases to the GRT and the administration's priority to enhance economic activity in all the provinces. They added that a key priority was to identify sustainable cost savings and introduce reforms to specific sectors (e.g.

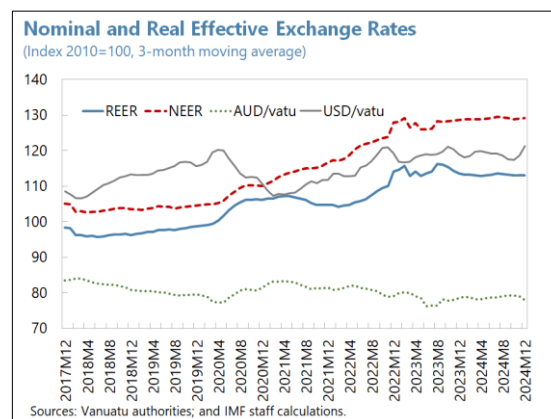
Education, Labor market, Digital economy) to improve the returns on governments investments. The authorities recognized the importance of developing the domestic government bond market.

B. Monetary and Exchange Rate Policies

19. The current monetary policy stance is

broadly appropriate.

The RBV has kept its policy rate unchanged at 2.75 percent since the tightening in 2024Q3 to curb elevated inflation and reduce excess liquidity.¹⁸ The RBV's purchases of government bonds have, however, impeded the effectiveness of open market operations (OMO) in mopping up excess liquidity and reinforced fiscal dominance.¹⁹ Private sector credit expanded by 5.4 percent y/y in 2024, driven by higher lending to both businesses and households. The current policy stance can support the



growth recovery amidst a stable inflation outlook and adequate foreign reserves. The RBV should closely monitor economic conditions and stand ready to adjust monetary policy when needed, especially if inflationary pressures reemerge. The exchange rate has acted as a buffer against external shocks and cushioned imported inflation. However, the adoption of the new basket weights, along with a clear framework for FX market operations, including through implementation of recent IMF technical assistance (TA) recommendations, should guide any future adjustments, allow better price discovery, and help manage FX liquidity risks. Strengthening the exchange rate policy—along with achieving a more sustainable policy mix in the medium term, with narrower imbalances—will be important, given that Vanuatu's external position is assessed to be moderately weaker than warranted by fundamentals and desired policies in 2024 (Annex IV).²⁰

20. Reforms to address RBV's governance issues and implement the remaining 2016

Safeguards Assessment recommendations are progressing. Recent steps to enhance RBV's internal oversight are welcome, and the operationalization of an Audit Committee comprising non-executive board members to address gaps in external oversight should remain a priority. These efforts will be reinforced by comprehensive amendments to the RBV Act—supported by IMF technical assistance—to strengthen its mandate, governance, independence, and accountability in line with best practices. Monetary financing through primary market purchases of government bonds by the RBV should be phased out, supported by accelerated plans to develop the domestic

¹⁸ The RBV has also maintained the statutory reserve deposit at 5.50 percent and continued with open market sale to mop up excess liquidity.

¹⁹ These purchases have increased to VT6.4 billion in 2024 (4.8 percent of GDP) due to the government's large domestic borrowing needs and the local financial sector's limited absorptive capacity.

²⁰ Due to the relatively weaker fit of the REER model for Vanuatu's data, staff relies more heavily on the current account-based REER estimate for its bottom-line external sector assessment (Annex IV).

debt markets to help provide a stable financing alternative for the government.²¹ Additionally, maintaining the financial autonomy of the RBV by ensuring a strong balance sheet and a sound profit retention and distribution framework is essential. To preserve both institutional and operational independence, it is crucial that the RBV's policy decisions are free from external influence; steps to achieve this would include the removal of government representative from the RBV Board, and ensuring the RBV is consulted prior to any legislative changes that could affect its mandate.

Authorities' Views

21. The RBV concurred with staff's assessment of the current monetary policy stance and the need to closely monitor economic conditions and adjust the policy stance as needed. They also highlighted progress in strengthening the RBV's internal oversight and reiterated their full commitment to amending the RBV Act to strengthen its independence in line with best practices, including by phasing out primary market purchases of government securities. In this regard, the RBV has requested additional IMF TA for the development of the secondary bond market. They are prepared to implement the new currency basket weights, which were reviewed and updated with IMF TA, pending approval from the RBV Board; and are confident that the reforms to the FX policy framework will help manage liquidity risks.

C. Financial Sector Policies

22. Vanuatu's financial sector is broadly stable but requires stronger safeguards against vulnerabilities. While systemic risks remain manageable, the recently completed FSSR found the banking system resilient to significant vatu outflows, though it remains susceptible to credit and FX liquidity risks. Persistently high NPLs—concentrated in one large state-owned bank and exacerbated by an illiquid real-estate market and slow legal recoveries—underscore oversight gaps. Supervisors should ensure adequate loan-loss provisioning and intensify supervisory efforts, particularly as risks associated with lending to the property sector increase. Planned improvements to the credit reporting bureau are expected to enhance underwriting standards and reduce future NPLs. The strong sovereign-bank nexus is another channel for the transmission of risks and should be closely monitored.²²

23. Reforms to modernize the prudential framework and supervision processes are needed to more effectively gauge and mitigate systemic risks. Effective supervisory plans should include frequent on-site inspections, technology-enabled off-site monitoring, risk-based sampling, targeted asset-quality reviews to reinforce underwriting standards, and adequate provisioning. These are critical for ensuring prudent loan management and supporting NPL reduction strategies. Close

²¹ This entails replacing the 2022 RBV Amendment Act that raised the limit of monetary financing to 40 percent, from 20 percent, of government revenues, with more restrictive limits and conditions tied to exceptional circumstances and accompanied by a well-defined sunset clause.

²² As of June 2024, banks' holdings of domestic debt securities (Treasury bills and bonds) accounted for 6.5 percent of total assets and 45 percent of regulatory capital with significant variation across banks.

monitoring of banks' FX net open positions and well-defined contingency plans to deal with FX funding shocks are needed to manage FX liquidity risk. The RBV should replace its current corporate-insolvency-based regime used for financial institutions with an administrative resolution framework under its own authority, and strengthen its stress testing capacity for early identification of vulnerabilities. Continued technical assistance provided through IMF headquarters and PFTAC will support these reforms.

24. Further strengthening the AML/CFT framework and building institutional capacity remain critical. To prepare for the 2026 Mutual Evaluation Review, the government has launched legislative reforms and established a National AML/CFT Coordinating Committee to close remaining gaps.²³ The upcoming National Risk Assessment report and National AML/CFT Strategy²⁴ should support the authorities in mapping out reforms to address existing deficiencies especially in high-risk areas associated with the ECP,²⁵ virtual assets (due to the anonymity of transactions), company trust service providers²⁶ and online gaming.²⁷ Priority should also be given to resolving other AML/CFT gaps, including weaknesses in the reporting of suspicious transactions and inadequate investigation of corruption offenses. As continued financial integrity concerns could contribute to ongoing CBR pressures, supervisory authorities need to adopt a risk-based approach to AML/CFT supervision to ensure banks meet global standards.

Authorities' Views

25. The RBV acknowledged that stronger supervisory processes are essential for safeguarding financial stability. They are focusing on enhancing oversight and streamlining non-performing loan (NPL) resolution mechanisms to tackle the substantial stock of NPLs within the banking sector. The authorities committed to advancing key reforms aimed at addressing regulatory and supervisory shortcomings, with support from IMF TA, while emphasizing their commitment to expanding financial inclusion. They believe that the newly established virtual assets framework, following recent legislation, will attract interested businesses and contribute positively to the economy. Regarding AML/CFT issues, the authorities agreed that it is vital to strengthen governance and transparency in the financial system. Implementing additional safeguards—including mandatory compliance and regular policy reviews—is crucial for enhancing reporting and bolstering oversight. They also expressed frustration over constraints in cross-border banking relationships and the

²³ The Government announced that a Mutual Evaluation Technical team will lead preparations for the onsite evaluation.

²⁴ The Strategy sets out ten strategic priorities, including: risk-based supervision of financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs); enhanced cross-agency information sharing and coordination; targeted capacity building, training, and public outreach; strengthened customer due diligence and 'know-your-client' measures; improved asset tracing, seizure, and confiscation procedures.

²⁵ Governance issues associated with the ECP include concerns about due diligence, low rejection rate, granting citizenships to persons posing security threats, and lack of information exchange with applicants' country of origin.

²⁶ Key issues include anonymity of persons and funds involved in these trusts, and lack of adequate supervision.

²⁷ Key issues include reputational risks related to offshore licensing and maintaining strict compliance with AML/CFT regulations.

disproportionately high compliance costs that small countries face, which impede business registrations and financial inclusion. The authorities called for support from the international community to address these challenges.

D. Structural Policies

26. Strengthening governance and addressing labor skills shortages will contribute to promoting investor confidence and inclusive growth. While the government has established a Revenue Governance Committee to explore new revenue options, improving transparency and governance of existing revenue streams, particularly the Citizenship program, and digitalizing systems, remain crucial in ensuring compliance. The government's new financial management information system (FMIS), expected to become operational in three years, should help in this regard to strengthen PFM and transparency across agencies. Implementation of the PFM Roadmap based on the updated PEFA assessment should remain a priority. Steps should also be taken to strengthen the governance, transparency and efficiency of the public procurement process, including by enhancing public access to procurement information, strengthening regulatory framework and enforcement, and monitoring political interference and corruption risks. Moreover, effective implementation of the newly legislated Commercial Government Business enterprises (CGBE) Act should help improve the oversight and evaluation of SOEs performance and help overcome significant weaknesses in SOE governance and undue political influence. Strengthening the asset declaration regime, including improving public access to the information, the systematic verification of submissions, and strengthening cooperation between relevant agencies (e.g., the Office of the Ombudsman, the Office of the Public Prosecutor) in the prosecution of corruption cases can further mitigate corruption in Vanuatu. Meanwhile, Vanuatu's growing participation in labor mobility schemes in Australia and New Zealand has led to brain drain in various critical sectors of the economy, affecting private sector development and long-term economic growth. The authorities need to harness the benefits of these labor mobility programs such as skills development and remittances for private sector activity and entrepreneurship. In addition, a comprehensive review of the education curriculum, continued investment in quality education and vocational training, strengthening women's participation in the formal labor force, and promoting an enabling business environment are essential (Annex VII).²⁸

27. The macro-critical impact of natural disasters on growth and external stability demonstrates the urgent need to accelerate the pace and scale of disaster adaptation measures.²⁹ These include disaster resilient infrastructure through enforcement of building codes and compliance with environmental impact assessments and regulations, scaling up access to climate finance and technical support, investing in early-warning systems, and enhancing community awareness and preparedness. Innovative disaster-risk financing products such as parametric insurance to cover the vulnerable communities can also help reduce the financial burden

²⁸ Measures include improving essential infrastructure, streamlining business registration processes, reducing red tapes, modernizing and simplifying outdated business laws, and increasing access to finance.

²⁹ Climate adaptation measures are discussed in the 2024 Article IV staff report.

after natural disasters and boost resilience.³⁰ Staff simulations using the DIGNAD model show that ex-ante adaptation investments can substantially mitigate disaster damages, lowering GDP losses and reconstruction financing needs, while also supporting faster economic recovery. Compared to standard infrastructure spending, adaptation investments reduce disaster-related GDP losses by about 0.4 percent, and scaling up adaptation with concessional borrowing yields additional benefits—especially when supported by a stronger fiscal position, to mitigate the impact on public debt (Annex VIII).

Authorities' Views

28. The authorities concurred with staff that overcoming structural challenges is crucial for fostering inclusive growth. They indicated that notable progress had been made on implementing the new integrated FMIS system, including staffing and contracting firms, and that the project was a key priority for the administration in the coming years. They highlighted that effective implementation of the CGBE Act—including timely submission of audited financial statements from state-owned enterprises—remains a priority and highlighted the ongoing work to staff the GBE Unit. To enhance climate resilience, the authorities acknowledged ongoing efforts to secure direct accreditation to the Green Climate Fund, including via technical assistance. They also indicated that adaptation projects are often delayed due to frequent natural disasters, slow procurement process, lack of skilled workers, and high transport costs. To address skilled and labor shortages, the authorities agreed that a comprehensive education system reform is needed to make it fit-for-purpose while preserving cultural values, including reviewing the education curriculum, leveraging digital technologies to support online learning, vocational and skills partnerships, and improving teacher's competency. They also recognized the importance of creating an enabling business environment and strengthening existing reintegration programs that offer business mentoring and coaching sessions to promote entrepreneurship and job creation.

CAPACITY DEVELOPMENT AND DATA ISSUES

29. The surveillance and capacity development needs remain critical (Annex IX). The authorities have followed through on previous Fund policy advice (Annex III) and acknowledged the capacity development support received from the Fund, including via the Pacific Financial Technical Assistance Centre (PFTAC). They are committed to implementing recent TA recommendations on the RBV Act reform, financial supervision and regulation, foreign exchange market operations, and the currency basket review. The authorities have requested additional TA support to develop the domestic government bond market, and will continue working with the Fund and PFTAC on ongoing TA and capacity building initiatives on statistics, financial sector supervision, tax policy, PFM and RBV reforms (see also Table 7).³¹

³⁰ Vanuatu received its first parametric insurance payout of US\$1.2 million after the earthquake in December 2024.

³¹ Vanuatu is assisted by many development partners and more recently has benefitted from the formation of a Joint Policy Reforms Group that discusses, among other topics, technical assistance for reforms.

30. The Data Adequacy Assessment (DAA) reveals that data provided to the Fund have some shortcomings that somewhat hamper surveillance. Annex X describes the data quality issues and significant data gaps in national accounts, balance of payments, fiscal accounts which somewhat impede timely surveillance. Data collection from relevant sources (such as price collection in Port Villa central business district) and release of statistics were temporarily affected by the December earthquake—which affected surveillance—but have improved as activity normalized. Ongoing TA programs are addressing some of these issues, which should help improve data quality.

STAFF APPRAISAL

31. The post-earthquake recovery is underway. Strong donor support, partial resumption of domestic air services, and a rebound in agricultural production are supporting activities. However, the pace of recovery in 2025 will remain constrained by capacity bottlenecks, limited domestic connectivity, and delays in project execution. A more pronounced recovery is anticipated in 2026 as reconstruction gathers momentum, critical infrastructure is restored, and tourism capacity normalizes. Despite a comfortable reserves position, Vanuatu’s external position is assessed to be moderately weaker than the level consistent with fundamentals and desirable policies in 2024.

32. The balance of risks is tilted to the downside. Key domestic vulnerabilities stem from the uncertain future of Air Vanuatu, sustainability of the Citizenship program, and capacity constraints in executing public investment. To mitigate these risks, the authorities should urgently adopt a credible business plan for Air Vanuatu and strengthen its management and financial standing, enhance governance and transparency of the Citizenship Program, and build greater resilience in public investment management to ensure timely and efficient project delivery. On the external front, Vanuatu remains highly exposed to natural disasters, commodity price volatility, and weaker-than-expected global demand, including from rising global trade tensions.

33. A series of recent shocks have led to deterioration in the underlying fiscal position, leaving little policy room to contend with future risks. VAT revenues have held up thanks to the resilience in the domestic economy and the authorities’ enhanced efforts in collection, while other revenue streams weakened. ECP revenues remain significant but are facing a structural decline, underscoring the need for stronger domestic revenue mobilization, and for subjecting ECP processes to best international practices. On government spending, the planned increases in public employee compensation and allowances are substantial, setting a negative precedent on expenditure prioritization, likely to create persistent deficits that would need to be financed with relatively expensive domestic debt, which has experienced a sharp increase. This, combined with the increasing susceptibility to natural disasters and climate-related shocks and the high reliance on donor grants warrants building adequate buffers during non-crisis periods (Annex VI).³²

³² Annex VI includes a stylized scenario analysis that assesses the impact of Vanuatu’s funding mix (grants vs. loans) on the country’s debt profile.

34. While the fiscal expansion envisaged by the budget in 2025 is warranted given ongoing shocks, a holistic and credible fiscal strategy is urgently needed to restore policy buffers and safeguard medium-term fiscal sustainability. Careful prioritization and expenditure management in the remainder of 2025 should be deployed to avoid an excessive fiscal expansion, and a medium-term consolidation plan should be urgently implemented. Strengthening the management and financial standing of Air Vanuatu's operation, including by adopting a credible business plan, is urgent to avoid posing a protracted burden on the budget, as well as on public liabilities. The fiscal responsibility framework should be reinforced and provided with a clear anchor and credible operational rules to underpin responsible public financial management. This will guide the medium-term fiscal consolidation strategy to rebuild policy buffers through a comprehensive package of robust revenue mobilization and expenditure rationalization measures. The fiscal consolidation and a prudent debt management strategy are critical for addressing government funding vulnerabilities (Annex VI) and alleviating domestic financing constraints, which have resulted in a heavy reliance on monetary financing by the RBV.

35. Improving governance and reducing risks of corruption are critical for long-term development. Effective implementation of the CGBE Act along with adequate resourcing of the GBE unit, will help bolster the oversight and evaluation of SOEs performance. Additionally, enhancing transparency and governance of existing revenue streams, especially the Citizenship program, and digitizing systems remain key for compliance. The implementation of the PFM Roadmap and the new financial management system will also strengthen PFM transparency.

36. Monetary policy should remain agile, and RBV reforms should be prioritized. The current monetary policy stance is appropriate given the benign inflation outlook, but the RBV should be prepared to respond if inflationary pressures arise. To improve the effectiveness of OMOs in reducing excess liquidity, monetary financing should be gradually phased out and only allowed under exceptional circumstances going forward. The ongoing legislative reforms to the RBV Act to strengthen its independence and autonomy in line with best practices are critical and should be prioritized. In particular, safeguarding the RBV's financial and operational independence requires a strong balance sheet, a transparent approach to profit retention and distribution, and the removal of political influence in policy decisions.

37. Stronger safeguards are needed to preserve financial stability. High non-performing loans, combined with low provisioning and a strong sovereign-bank nexus, raise financial stability risks. Strengthening supervisory capacity, enhancing loan recovery frameworks, and implementing a modern bank resolution framework will be critical to bolster resilience. Effective implementation of the AML/CFT framework, targeted measures to address risks from the Economic Citizenship Program and virtual assets, and enhanced cross-border cooperation are essential to preserve correspondent banking relationships. Expanding financial inclusion, particularly in underserved communities, should be pursued in parallel to ensure that financial sector development supports inclusive and sustainable growth.

38. Concerted and sustained actions are needed to address structural challenges to build long-term resilience and inclusive growth. Strengthening resilience—by investing in more robust infrastructure and improving disaster preparedness—remains essential to safeguard development gains and reduce the economic scarring from repeated climate- and disaster-related shocks. Leveraging the benefits of overseas labor mobility programs to support skills development and entrepreneurship, investing in quality education and vocational training, promoting women’s participation in the formal labor force, and fostering an enabling business environment are critical for promoting private sector growth.

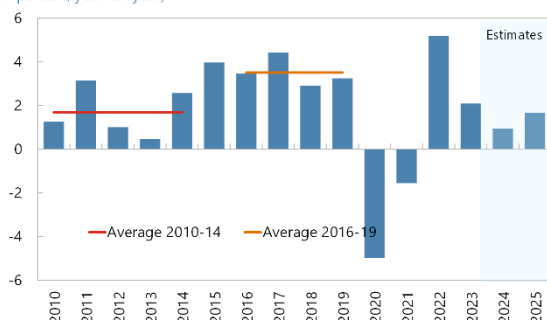
39. It is recommended that the next Article IV Consultation takes place on the standard 12-month cycle.

Figure 1. Vanuatu: Real Sector Developments

Growth has slowed amid repeated shocks in recent periods,

Real GDP Growth, 2006-24

(In percent, year-on-year)

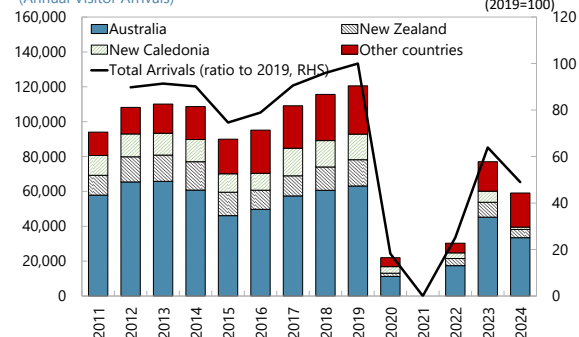


Sources: Authorities; and IMF staff estimates.

... and disrupted the recovery in tourism.

Tourist Arrivals by Key Source Markets

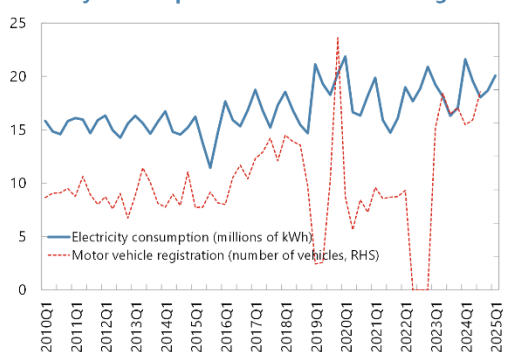
(Annual Visitor Arrivals)



Source: Vanuatu Authorities.

Economic indicators are recovering...

Electricity Consumption and Motor Vehicle Registration



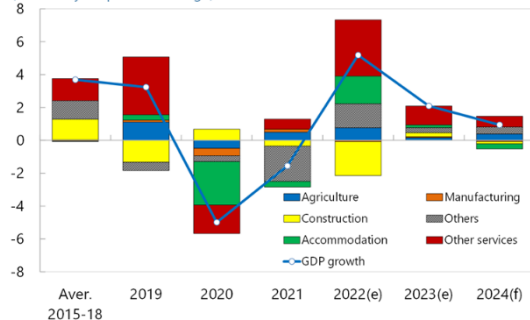
Source: Vanuatu authorities.

... which have had broad-based impact on multiple sectors,

...

GDP Growth and Decomposition

(Year-on-year percent change)



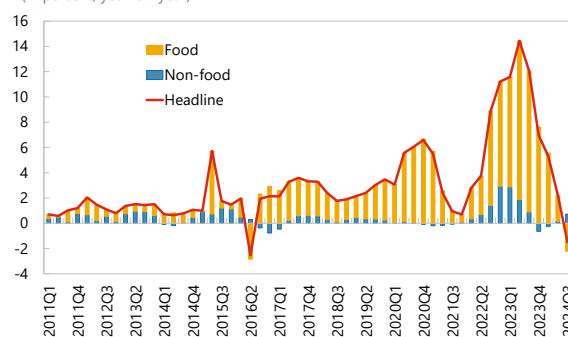
Sources: Vanuatu Bureau of Statistics; and IMF staff estimates.

Notes: Others includes Mining & Quarrying, and Electricity & Water Supply.

Inflation fell from its 2023 level, largely driven by the resolution of agricultural price shocks.

Headline Inflation

(In percent, year-on-year)

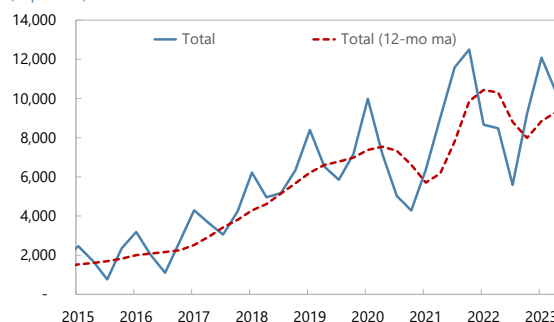


Sources: VBoS; and IMF staff calculations.

...and increasing labor shortages could pose challenges to sustained economic growth.

Participation in Seasonal Employment Schemes

(In persons)



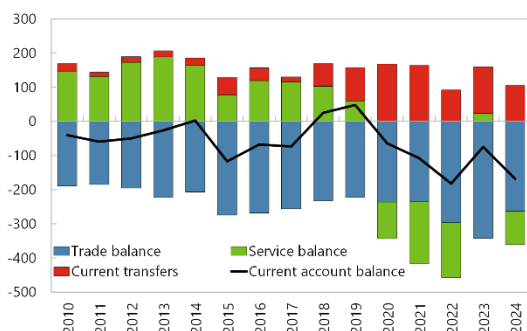
Source: Vanuatu authorities.

Figure 2. Vanuatu: External Sector Developments

The current account deficit widened in 2024, driven by declines in both tourism and non-tourism earnings, and current transfers.

Current Account

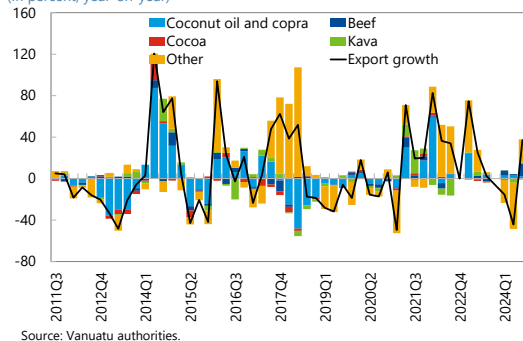
(In millions of US dollars)



Exports improved in 2024, led by higher exports of beef and other agricultural products.

Export Growth

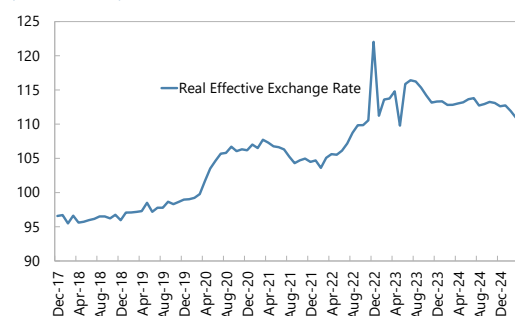
(In percent, year-on-year)



The real effective exchange rate depreciated slightly in 2024.

Real Effective Exchange Rate

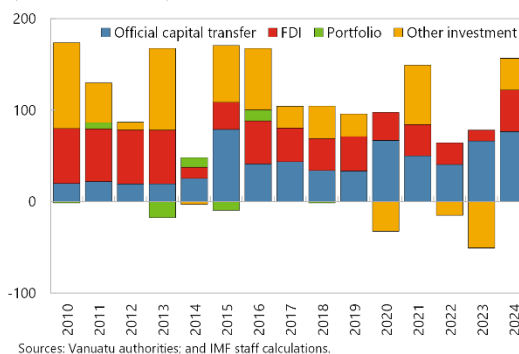
(Index 2010=100)



Capital transfers and FDI remained resilient in 2024.

Capital and Financial Accounts

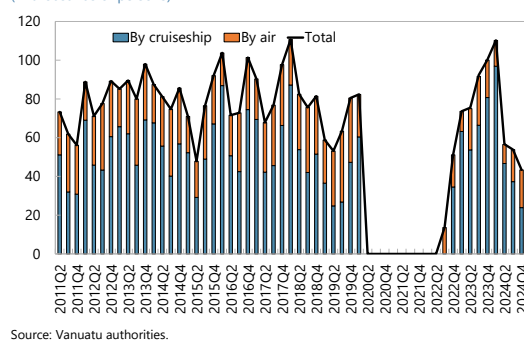
(In millions of US dollars)



Tourism fell in 2024 affected by the liquidation of Air Vanuatu.

Tourist Arrivals

(In thousands of persons)



Reserves are projected to fall due to slower recovery of tourism receipts, moderate remittances, and a structural decline in ECP revenues.

Official Foreign Exchange Reserves

(In millions of U.S. dollars)

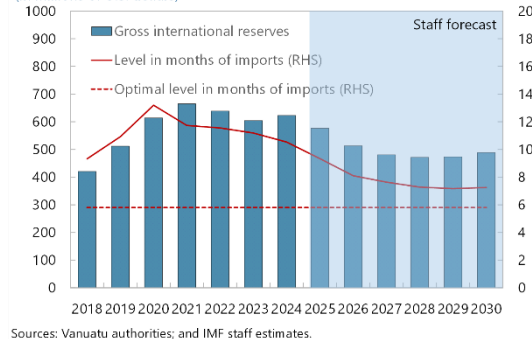
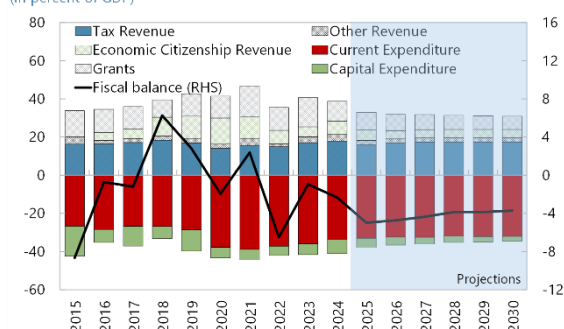


Figure 3. Vanuatu: Fiscal and Monetary Sector Developments

Large fiscal deficits are expected to persist...

Fiscal Revenue and Expenditure

(In percent of GDP)

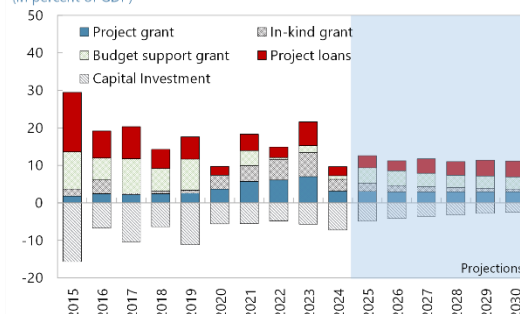


Sources: Vanuatu authorities; and IMF staff calculations.

...due to higher spending on post-earthquake rebuilding and infrastructure.

Capital Spending and External Financing

(In percent of GDP)

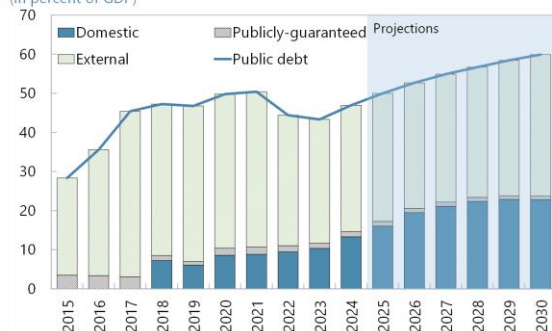


Sources: Vanuatu authorities; and IMF staff estimates.

Public debt levels are expected to climb, posing risks to debt sustainability.

Public and Publicly-guaranteed Debt

(In percent of GDP)

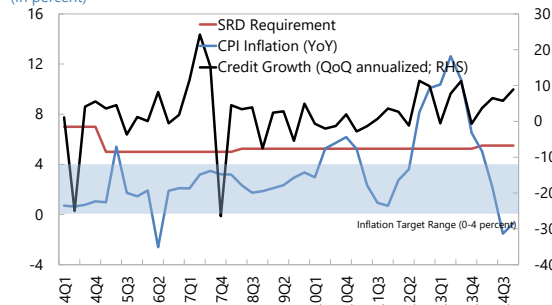


Sources: Vanuatu authorities; and IMF staff estimates.

The RBV has maintained the SRD, while credit growth picked up in 2024.

SRD Requirement, Inflation and Credit Growth

(In percent)



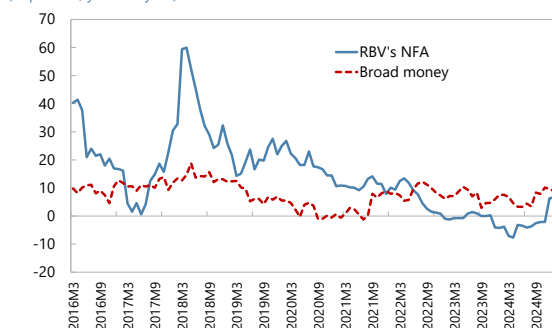
Note: SRD refers to statutory reserve deposit.

Source: Vanuatu authorities.

Money supply expanded in 2024, attributed to foreign inflows of disaster-related funds.

RBV's NFA and Money Supply Growth

(In percent, year-on-year)

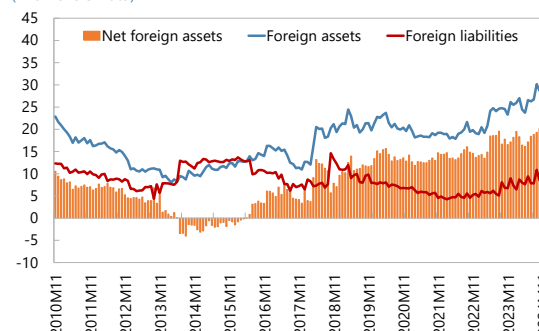


Source: Vanuatu authorities.

Net foreign assets of commercial banks increased in 2024.

Banks' Foreign Assets and Liabilities

(In billions of vatu)

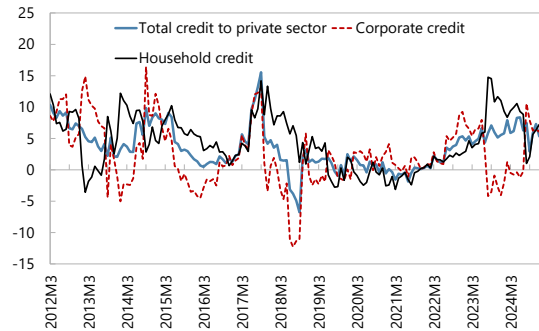


Source: Vanuatu authorities.

Figure 4. Vanuatu: Financial Sector Developments

Private credit growth is robust, especially to households...

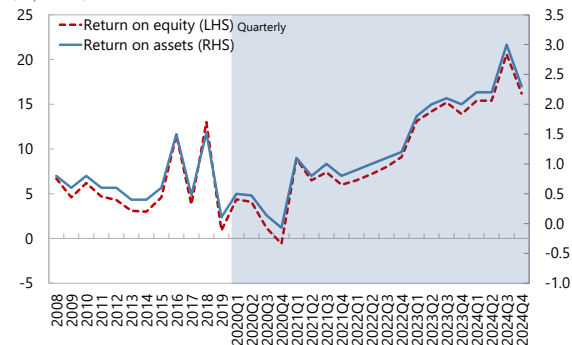
Private Credit Growth (Year-on-year percentage change)



Source: Vanuatu authorities.

And the banking sector remains profitable...

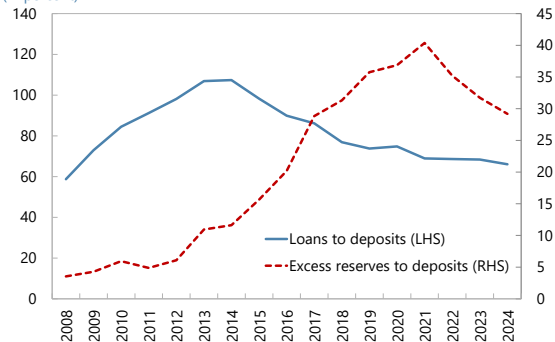
Bank Profitability (In percent)



Source: Vanuatu authorities.

Overall liquid with respect to its funding...

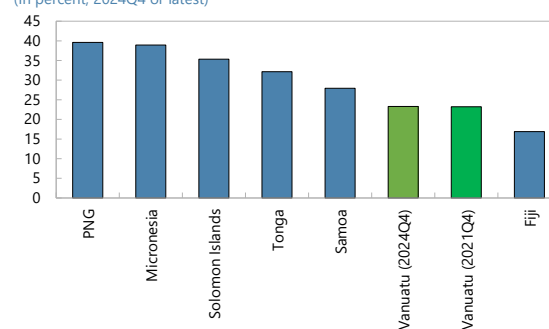
Loan-to-Deposit and Excess Reserve Ratio (In percent)



Sources: Vanuatu authorities; and IMF staff calculations.

... and adequately capitalized.

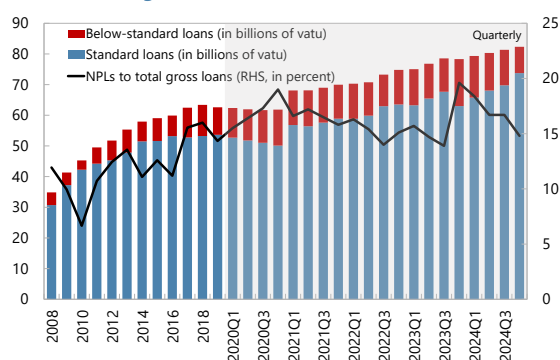
Capital Adequacy Ratio (In percent, 2024Q4 or latest)



Sources: Country authorities; and IMF staff calculations.

Bank asset quality has improved, but NPL's remain high.

Non-Performing Loans

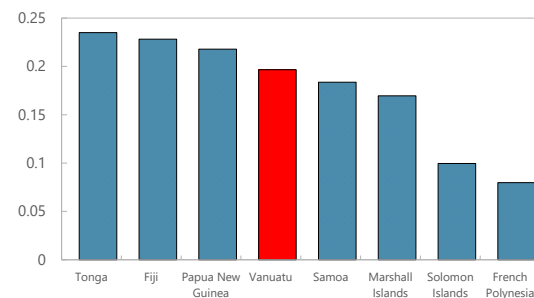


Source: Vanuatu authorities.

Financial access of households is moderately high compared to its peers.

Financial Development Index, 2021

(Relative ranking of countries on access, depth and efficiency of financial institutions and markets)



Source: IMF Financial Development Index Database.

Table 1. Vanuatu: Selected Economic Indicators, 2021–30

Population (2021): 312,039

IMF quota: SDR 23.8 million (0.01 percent of total)

Main products and exports: Kava, coconut oil, copra, cocoa, beef

Key export markets: New Caledonia, Australia, New Zealand

Per Capita GDP (2021): US\$ 2,952

Literacy rate (2018): 87.5 percent

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|-------|-------|----------|-------|----------|-------|-------|-------|-------|-------|
| | | | Estimate | | Forecast | | | | | |
| Output and prices (annual percent change) | | | | | | | | | | |
| Real GDP | -1.6 | 5.2 | 2.1 | 0.9 | 1.7 | 2.8 | 2.7 | 2.3 | 2.3 | 2.3 |
| Consumer prices (period average) | 2.3 | 6.7 | 11.2 | 1.2 | 1.7 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Consumer prices (end period) | 0.7 | 11.2 | 7.0 | -0.7 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| Government finance (in percent of GDP) | | | | | | | | | | |
| Total revenue | 46.8 | 35.5 | 40.6 | 38.7 | 33.0 | 31.9 | 31.8 | 31.4 | 31.1 | 30.9 |
| Taxes | 15.7 | 15.0 | 17.1 | 18.0 | 16.1 | 16.8 | 17.4 | 17.5 | 17.5 | 17.5 |
| Other revenue | 14.8 | 8.5 | 8.3 | 10.4 | 7.6 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| Grants | 16.3 | 12.1 | 15.3 | 10.4 | 9.3 | 8.6 | 7.9 | 7.4 | 7.2 | 6.9 |
| Expenditure | 44.4 | 42.0 | 41.6 | 41.1 | 38.0 | 36.6 | 36.1 | 35.2 | 35.0 | 34.6 |
| Expense | 38.8 | 37.2 | 35.9 | 33.9 | 33.1 | 32.4 | 32.6 | 32.0 | 32.2 | 32.1 |
| Net acquisition of non financial assets | 5.5 | 4.8 | 5.7 | 7.2 | 4.9 | 4.2 | 3.6 | 3.2 | 2.8 | 2.5 |
| Net lending (+)/borrowing (-) | 2.4 | -6.5 | -0.9 | -2.3 | -5.0 | -4.7 | -4.4 | -3.9 | -3.9 | -3.7 |
| Public and publicly-guaranteed debt (end of period) | 49.5 | 43.6 | 42.6 | 46.2 | 49.4 | 52.2 | 54.6 | 56.6 | 58.4 | 59.3 |
| Domestic | 8.8 | 9.5 | 10.3 | 13.2 | 16.1 | 19.6 | 21.4 | 22.8 | 23.4 | 22.8 |
| External | 40.7 | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 | 33.1 | 33.7 | 35.0 | 36.5 |
| Money and credit (annual percentage change) | | | | | | | | | | |
| Broad money (M2) | 14.2 | 5.6 | -0.8 | 5.7 | -0.7 | 3.0 | 4.4 | 6.4 | 7.9 | 8.6 |
| Net foreign assets | 7.8 | -0.1 | 0.8 | 11.9 | -9.2 | -6.5 | -2.5 | 1.2 | 5.2 | 7.9 |
| Domestic credit | 7.0 | 21.4 | 11.9 | 10.1 | 11.9 | 12.3 | 8.8 | 7.9 | 6.5 | 5.6 |
| Of which: Credit to private sector | 0.3 | 6.1 | 5.9 | 5.4 | 4.8 | 4.0 | 4.3 | 4.4 | 4.5 | 4.5 |
| Interest rates (in percent, end of period) 1/ | | | | | | | | | | |
| Deposit rate (vatu deposits) | 0.5 | 0.4 | 0.4 | 0.3 | ... | ... | ... | ... | ... | ... |
| Lending rate (vatu loans) | 9.4 | 9.0 | 8.8 | 8.6 | ... | ... | ... | ... | ... | ... |
| Balance of payments (in percent of GDP) | | | | | | | | | | |
| Current account | -11.7 | -17.6 | -6.6 | -15.4 | -11.6 | -11.6 | -9.7 | -6.7 | -5.8 | -5.0 |
| Trade balance | -25.4 | -28.6 | -30.4 | -24.1 | -29.4 | -30.7 | -29.3 | -27.8 | -27.7 | -26.2 |
| Exports of goods | 5.7 | 7.0 | 5.4 | 6.6 | 6.3 | 6.3 | 6.3 | 6.3 | 6.4 | 6.4 |
| Imports of goods | 31.1 | 35.6 | 35.8 | 30.7 | 35.7 | 37.0 | 35.6 | 34.1 | 34.0 | 32.7 |
| Travel receipts | 0.2 | 3.8 | 12.0 | 10.0 | 11.2 | 12.6 | 14.4 | 15.1 | 15.2 | 15.2 |
| Non-travel receipts | 3.2 | 3.7 | 6.2 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 |
| Gross Remittances | 20.6 | 17.8 | 15.0 | 15.2 | 16.3 | 15.8 | 15.4 | 15.0 | 14.6 | 14.2 |
| Capital and financial account | 22.2 | 9.1 | 3.6 | 15.2 | 7.6 | 6.3 | 7.2 | 6.1 | 6.0 | 6.2 |
| Of which: Foreign direct investment | 3.7 | 2.3 | 1.1 | 4.2 | 3.7 | 3.3 | 3.1 | 3.1 | 3.0 | 2.7 |
| Overall balance | 5.5 | -2.5 | -3.0 | 1.7 | -4.0 | -5.3 | -2.5 | -0.6 | 0.2 | 1.2 |
| Gross international reserves (in millions of U.S. dollars) | 665 | 639 | 604 | 623 | 578 | 516 | 485 | 477 | 480 | 496 |
| Gross international reserves (in months of prospective G&S imports) 2/ | 11.7 | 11.6 | 11.2 | 10.5 | 9.4 | 8.1 | 7.7 | 7.4 | 7.3 | 7.4 |
| External debt service (in percent of GNFS exports) | 16.4 | 40.6 | 26.9 | 14.6 | 7.9 | 9.0 | 9.5 | 8.7 | 8.2 | 7.9 |
| Exchange rates 3/ | | | | | | | | | | |
| Vatu per U.S. dollar (period average) | 112.9 | 117.6 | 118.1 | 122.3 | ... | ... | ... | ... | ... | ... |
| Vatu per U.S. dollar (end of period) | 112.2 | 117.2 | 116.5 | 123.8 | ... | ... | ... | ... | ... | ... |
| Memorandum items: | | | | | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 921 | 1,035 | 1,125 | 1,090 | 1,119 | 1,176 | 1,235 | 1,292 | 1,351 | 1,413 |
| GDP per capita (U.S. dollars) | 2,952 | 3,206 | 3,371 | 3,157 | 3,133 | 3,185 | 3,233 | 3,269 | 3,306 | 3,343 |

Sources: Vanuatu authorities; and IMF staff estimates and projections.

1/ Weighted average rate of interest for total bank deposits and loans.

2/ Reserves in months of imports differs from the RBV reported figure due to a difference in the definition of eligible imports.

3/ The vatu is officially pegged to an undisclosed basket of currencies.

Table 2. Vanuatu: Central Government Budgetary Operations, 2021–30¹

(in millions of vatu)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------|
| | | | Estimate | | | | Forecast | | | |
| Total revenue | 48,652 | 43,260 | 54,014 | 51,615 | 45,694 | 46,412 | 48,564 | 50,134 | 52,077 | 54,086 |
| Domestic revenue | 31,718 | 28,561 | 33,703 | 37,749 | 32,752 | 33,929 | 36,509 | 38,332 | 40,093 | 41,934 |
| Taxes | 16,336 | 18,201 | 22,677 | 23,956 | 22,280 | 24,504 | 26,604 | 27,945 | 29,229 | 30,571 |
| Taxes on property | 468 | 443 | 494 | 706 | 734 | 771 | 810 | 847 | 886 | 927 |
| Taxes on goods and services | 11,906 | 13,862 | 17,439 | 19,276 | 17,615 | 19,402 | 21,030 | 21,996 | 23,007 | 24,064 |
| VAT | 7,297 | 9,112 | 10,504 | 12,511 | 11,260 | 12,402 | 13,331 | 13,944 | 14,584 | 15,254 |
| Excise | 3,073 | 2,626 | 4,059 | 3,411 | 3,204 | 3,529 | 3,882 | 4,060 | 4,247 | 4,442 |
| Other | 1,535 | 2,124 | 2,876 | 3,354 | 3,151 | 3,470 | 3,817 | 3,992 | 4,176 | 4,368 |
| Taxes on international trade | 3,962 | 3,896 | 4,744 | 3,974 | 3,932 | 4,331 | 4,763 | 5,101 | 5,336 | 5,581 |
| Other revenue | 15,382 | 10,361 | 11,026 | 13,793 | 10,471 | 9,426 | 9,906 | 10,387 | 10,864 | 11,363 |
| Of which: Economic citizenship programs | 11,647 | 8,482 | 7,004 | 9,339 | 7,471 | 6,271 | 6,594 | 6,923 | 7,241 | 7,574 |
| Grants from development partners ^{2/} | 16,934 | 14,699 | 20,311 | 13,867 | 12,942 | 12,483 | 12,055 | 11,802 | 11,985 | 12,151 |
| Infrastructure projects grants | 5,966 | 7,446 | 9,330 | 4,193 | 4,300 | 4,300 | 4,521 | 4,747 | 4,965 | 5,193 |
| Budget support and social program | 4,180 | 555 | 2,450 | 1,289 | 5,642 | 5,783 | 5,494 | 5,219 | 5,459 | 5,710 |
| In kind aid | 4,400 | 6,698 | 8,532 | 4,193 | 3,000 | 2,400 | 2,040 | 1,836 | 1,561 | 1,248 |
| Expenditure | 46,175 | 51,175 | 55,274 | 54,734 | 52,590 | 53,306 | 55,224 | 56,301 | 58,540 | 60,577 |
| Current Expenditure ^{3/} | 40,411 | 45,315 | 47,703 | 45,103 | 45,848 | 47,239 | 49,763 | 51,113 | 53,871 | 56,141 |
| Compensation of employees | 16,796 | 17,583 | 17,590 | 19,263 | 24,450 | 25,708 | 26,991 | 28,231 | 29,528 | 30,884 |
| Use of goods and services | 10,574 | 11,990 | 12,000 | 12,016 | 8,781 | 10,098 | 12,118 | 12,724 | 13,996 | 14,639 |
| Interest payment | 1,005 | 1,033 | 1,236 | 1,156 | 1,515 | 2,112 | 2,551 | 2,941 | 3,336 | 3,695 |
| Subsidies | 422 | 330 | 114 | 146 | 205 | 193 | 106 | 85 | 89 | 93 |
| Grants by central government | 4,574 | 4,147 | 5,228 | 4,868 | 4,868 | 4,868 | 4,917 | 4,425 | 4,628 | 4,841 |
| Social benefits | 500 | 1,296 | 1,167 | 857 | 767 | 730 | 474 | 306 | 167 | 175 |
| Other expense ^{2/} | 6,540 | 8,936 | 10,368 | 6,797 | 5,262 | 3,531 | 2,606 | 2,402 | 2,126 | 1,814 |
| Acquisition of nonfinancial assets ^{3/} | 5,764 | 5,860 | 7,572 | 9,631 | 6,742 | 6,068 | 5,461 | 5,188 | 4,669 | 4,436 |
| Gross operating balance ^{4/} | 8,240 | -2,055 | 6,311 | 6,513 | -154 | -826 | -1,198 | -979 | -1,793 | -2,055 |
| Net lending (+)/borrowing (-) | 2,476 | -7,915 | -1,260 | -3,118 | -6,896 | -6,894 | -6,659 | -6,167 | -6,462 | -6,491 |
| Net acquisition of financial assets | 3,640 | -5,994 | 70 | -698 | 78 | 578 | 578 | 578 | 578 | 578 |
| Net incurrence of liabilities | 1,265 | 1,921 | 1,330 | 2,420 | 6,975 | 7,472 | 7,238 | 6,745 | 7,041 | 7,069 |
| Domestic | 137 | 2,738 | -2,999 | 831 | 4,607 | 6,344 | 4,132 | 3,718 | 2,668 | 1,851 |
| Foreign | 1,128 | -816 | 4,329 | 1,590 | 2,368 | 1,128 | 3,106 | 3,027 | 4,372 | 5,218 |
| Memorandum items: | | | | | | | | | | |
| Public and publicly-guaranteed debt | 51,470 | 53,025 | 56,580 | 61,523 | 68,380 | 76,052 | 83,490 | 90,435 | 97,676 | 104,945 |
| Domestic | 8,179 | 10,523 | 12,709 | 16,638 | 21,245 | 27,589 | 31,721 | 35,439 | 38,107 | 39,958 |
| Publicly guaranteed | 984 | 1,010 | 1,010 | 1,010 | 1,010 | 1,010 | 1,010 | 1,010 | 1,010 | 1,010 |
| External | 42,305 | 41,505 | 42,823 | 43,765 | 46,015 | 47,343 | 50,649 | 53,877 | 58,449 | 63,867 |
| Debt service | 5,269 | 6,401 | 6,402 | 3,730 | 4,517 | 4,662 | 5,551 | 6,379 | 10,671 | 6,587 |
| External debt service | 3,853 | 4,728 | 4,550 | 2,128 | 2,647 | 3,144 | 3,232 | 3,292 | 3,317 | 2,787 |
| Primary balance | 3,481 | -6,882 | -24 | -1,962 | -5,381 | -4,782 | -4,108 | -3,226 | -3,126 | -2,796 |

Sources: Vanuatu authorities; and IMF staff estimates and projections.

1/ Fiscal year corresponds to the calendar year.

2/ Includes aid in kind; the large decline between 2022 and 2023 reflects the reduction in COVID-related aid in kind.

For 2024 and beyond, this item includes estimated expenses related to the restructuring costs for Air Vanuatu and resuming domestic operations.

3/ Does not include consumption of fixed capital (depreciation).

4/ Gross operating balance is used instead of net, as there is no data on consumption of fixed capital (depreciation).

Table 3. Vanuatu: Central Government Budgetary Operations, 2021–30¹
(in percent of GDP, unless otherwise stated)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|
| | | | Estimate | | | | Forecast | | | |
| Total revenue | 46.8 | 35.5 | 40.6 | 38.7 | 33.0 | 31.9 | 31.8 | 31.4 | 31.1 | 30.9 |
| Domestic revenue | 30.5 | 23.5 | 25.4 | 28.3 | 23.7 | 23.3 | 23.9 | 24.0 | 24.0 | 24.0 |
| Taxes | 15.7 | 15.0 | 17.1 | 18.0 | 16.1 | 16.8 | 17.4 | 17.5 | 17.5 | 17.5 |
| Taxes on property | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Taxes on goods and services | 11.4 | 11.4 | 13.1 | 14.5 | 12.7 | 13.3 | 13.8 | 13.8 | 13.8 | 13.8 |
| VAT | 7.0 | 7.5 | 7.9 | 9.4 | 8.1 | 8.5 | 8.7 | 8.7 | 8.7 | 8.7 |
| Excise | 3.0 | 2.2 | 3.1 | 2.6 | 2.3 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Other | 1.5 | 1.7 | 2.2 | 2.5 | 2.3 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Taxes on international trade | 3.8 | 3.2 | 3.6 | 3.0 | 2.8 | 3.0 | 3.1 | 3.2 | 3.2 | 3.2 |
| Other revenue | 14.8 | 8.5 | 8.3 | 10.4 | 7.6 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| <i>Of which:</i> Economic citizenship programs | 11.2 | 7.0 | 5.3 | 7.0 | 5.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Grants from development partners | 16.3 | 12.1 | 15.3 | 10.4 | 9.3 | 8.6 | 7.9 | 7.4 | 7.2 | 6.9 |
| Infrastructure projects grants | 5.7 | 6.1 | 7.0 | 3.1 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Budget support and social program | 4.0 | 0.5 | 1.8 | 1.0 | 4.1 | 4.0 | 3.6 | 3.3 | 3.3 | 3.3 |
| In kind aid | 4.2 | 5.5 | 6.4 | 3.1 | 2.2 | 1.6 | 1.3 | 1.1 | 0.9 | 0.7 |
| Expenditure | 44.4 | 42.0 | 41.6 | 41.1 | 38.0 | 36.6 | 36.1 | 35.2 | 35.0 | 34.6 |
| Current Expenditure ^{3/} | 38.8 | 37.2 | 35.9 | 33.9 | 33.1 | 32.4 | 32.6 | 32.0 | 32.2 | 32.1 |
| Compensation of employees | 16.1 | 14.4 | 13.2 | 14.5 | 17.7 | 17.7 | 17.7 | 17.7 | 17.7 | 17.7 |
| Use of goods and services | 10.2 | 9.9 | 9.0 | 9.0 | 6.3 | 6.9 | 7.9 | 8.0 | 8.4 | 8.4 |
| Interest payment | 1.0 | 0.8 | 0.9 | 0.9 | 1.1 | 1.5 | 1.7 | 1.8 | 2.0 | 2.1 |
| Subsidies | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Grants by central government | 4.4 | 3.4 | 3.9 | 3.7 | 3.5 | 3.3 | 3.2 | 2.8 | 2.8 | 2.8 |
| Social benefits | 0.5 | 1.1 | 0.9 | 0.6 | 0.6 | 0.5 | 0.3 | 0.2 | 0.1 | 0.1 |
| Other expense ^{2/} | 6.3 | 7.3 | 7.8 | 5.1 | 3.8 | 2.4 | 1.7 | 1.5 | 1.3 | 1.0 |
| Acquisition of nonfinancial assets ^{3/} | 5.5 | 4.8 | 5.7 | 7.2 | 4.9 | 4.2 | 3.6 | 3.2 | 2.8 | 2.5 |
| Gross operating balance ^{4/} | 7.9 | -1.7 | 4.7 | 4.9 | -0.1 | -0.6 | -0.8 | -0.6 | -1.1 | -1.2 |
| Net lending (+)/borrowing (-) | 2.4 | -6.5 | -0.9 | -2.3 | -5.0 | -4.7 | -4.4 | -3.9 | -3.9 | -3.7 |
| Net acquisition of financial assets | 3.5 | -4.9 | 0.1 | -0.5 | 0.1 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Net incurrence of liabilities | 1.2 | 1.6 | 1.0 | 1.8 | 5.0 | 5.1 | 4.7 | 4.2 | 4.2 | 4.0 |
| Memorandum items: | | | | | | | | | | |
| Public and publicly-guaranteed debt | 49.5 | 43.6 | 42.6 | 46.2 | 49.4 | 52.2 | 54.6 | 56.6 | 58.4 | 60.0 |
| Domestic | 8.8 | 9.5 | 10.3 | 13.2 | 16.1 | 19.6 | 21.4 | 22.8 | 23.4 | 22.8 |
| External | 40.7 | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 | 33.1 | 33.7 | 35.0 | 36.5 |
| <i>Of which:</i> RCF/RFI | 0.5 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt service | 5.1 | 5.3 | 4.8 | 2.8 | 3.3 | 3.2 | 3.6 | 4.0 | 6.4 | 3.8 |
| <i>Of which:</i> External debt service | 3.7 | 3.9 | 3.4 | 1.6 | 1.9 | 2.2 | 2.1 | 2.1 | 2.0 | 1.6 |
| Primary balance | 3.3 | -5.7 | 0.0 | -1.5 | -3.9 | -3.3 | -2.7 | -2.0 | -1.9 | -1.6 |
| Nominal GDP (millions of vatu) | 104,023 | 121,702 | 132,913 | 133,225 | 138,474 | 145,596 | 152,865 | 159,887 | 167,232 | 174,914 |

Sources: Vanuatu authorities; and IMF staff estimates and projections.

1/ Fiscal year corresponds to the calendar year.

2/ Includes aid in kind; the large decline between 2022 and 2023 reflects the reduction in COVID-related aid in kind.

For 2024 and beyond, this item includes estimated expenses related to the restructuring costs for Air Vanuatu and resuming domestic operations.

3/ Does not include consumption of fixed capital (depreciation).

4/ Gross operating balance is used instead of net, as there is no data on consumption of fixed capital (depreciation).

Table 4. Vanuatu: Monetary Survey, 2021–26

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|---------|---------|---------|---------|----------|---------|
| | | | | | Forecast | |
| (In millions of vatu; end of period) | | | | | | |
| Net foreign assets | 87,579 | 87,509 | 88,167 | 98,696 | 89,606 | 83,815 |
| Monetary authorities | 73,245 | 73,830 | 71,021 | 75,502 | 69,899 | 62,218 |
| Commercial banks | 14,334 | 13,679 | 17,146 | 23,194 | 19,707 | 21,597 |
| Net domestic assets | 23,367 | 29,679 | 28,048 | 24,183 | 32,361 | 41,829 |
| Domestic credit | 46,064 | 55,930 | 62,596 | 68,938 | 77,116 | 86,584 |
| Claims on government (net) | -18,501 | -12,482 | -10,036 | -7,491 | -2,884 | 3,460 |
| Claims on municipalities | 29 | 30 | 33 | 36 | 36 | 36 |
| Claims on other sectors | 64,535 | 68,382 | 72,599 | 76,393 | 79,964 | 83,088 |
| Claims on nonfinancial public enterprises | 1,141 | 1,148 | 1,421 | 1,343 | 1,321 | 1,299 |
| Claims on private sector | 63,395 | 67,234 | 71,177 | 75,050 | 78,643 | 81,789 |
| Other items (net) | -22,696 | -26,251 | -34,548 | -44,755 | -44,755 | -44,755 |
| Total broad money (M2) | 110,946 | 117,188 | 116,215 | 122,879 | 121,967 | 125,644 |
| Narrow money | 59,205 | 67,519 | 73,920 | 81,149 | 78,186 | 84,107 |
| Currency outside banks | 11,333 | 13,553 | 14,359 | 16,292 | 1,706 | -6,078 |
| Demand deposits | 47,872 | 53,965 | 59,560 | 64,856 | 76,479 | 90,185 |
| Quasi-money | 51,741 | 49,669 | 42,295 | 41,730 | 43,781 | 41,537 |
| (Annual percentage change, unless otherwise indicated) | | | | | | |
| Net foreign assets | 7.8 | -0.1 | 0.8 | 11.9 | -9.2 | -6.5 |
| Net domestic assets | 56.2 | 32.4 | -6.6 | -16.5 | 40.6 | 35.1 |
| Domestic credit | 7.0 | 21.4 | 11.9 | 10.1 | 11.9 | 12.3 |
| Credit to the economy | 0.6 | 6.0 | 6.2 | 5.2 | 4.7 | 3.9 |
| Private sector credit | 0.3 | 6.1 | 5.9 | 5.4 | 4.8 | 4.0 |
| Total broad money | 14.2 | 5.6 | -0.8 | 5.7 | -0.7 | 3.0 |
| Vatu broad money | 10.3 | 9.7 | 2.9 | 7.8 | -2.4 | 5.6 |
| Memorandum items: | | | | | | |
| Vatu broad money multiplier | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Total broad money multiplier | 1.9 | 1.7 | 1.6 | 1.5 | 1.6 | 1.5 |
| Velocity | | | | | | |
| Narrow money | 1.9 | 1.9 | 1.9 | 1.7 | 1.7 | 1.8 |
| Vatu broad money | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total broad money | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 |
| Reserve money (in millions of vatu) | 55,759 | 57,101 | 56,892 | 59,283 | 55,725 | 50,410 |
| Reserve money (annual percentage change) | 15.1 | 2.4 | -0.4 | 4.2 | -6.0 | -9.5 |
| Credit to private sector (in percent of GDP) | 60.9 | 55.2 | 53.6 | 56.3 | 56.8 | 56.2 |
| Foreign currency deposits (annual percentage change) | 24.7 | -4.0 | -10.9 | -0.8 | 4.9 | -5.1 |
| Foreign currency deposits/total deposits (percent) | 33.0 | 30.4 | 27.6 | 26.2 | 24.3 | 21.1 |
| Foreign currency credit/total credit (percent) | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 |
| Net foreign assets of banks (in millions of U.S. dollars) | 127.8 | 116.7 | 147.2 | 187.4 | 159.2 | 174.5 |
| Net foreign assets (in percent of GDP) | 84.2 | 71.9 | 66.3 | 74.1 | 64.7 | 57.6 |
| Nominal GDP (in millions of vatu) | 104,023 | 121,702 | 132,913 | 133,225 | 138,474 | 145,596 |
| Sources: Vanuatu authorities, and IMF staff estimates and projections. | | | | | | |

Table 5. Vanuatu: Balance of Payments, 2021–30
(in percent of GDP, unless otherwise stated)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | Est. | | | Forecast | | | |
| Current account balance | -11.7 | -17.6 | -6.6 | -15.4 | -11.6 | -11.6 | -9.7 | -6.7 | -5.8 | -5.0 |
| Goods trade balance | -25.4 | -28.6 | -30.4 | -24.1 | -29.4 | -30.7 | -29.3 | -27.8 | -27.7 | -26.2 |
| Exports of goods (f.o.b.) | 5.7 | 7.0 | 5.4 | 6.6 | 6.3 | 6.3 | 6.3 | 6.3 | 6.4 | 6.4 |
| Domestic exports | 5.4 | 6.7 | 4.4 | 6.0 | 5.7 | 5.8 | 5.8 | 5.9 | 5.9 | 6.0 |
| Re-exports | 0.3 | 0.3 | 1.0 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Imports of goods (f.o.b.) | 31.1 | 35.6 | 35.8 | 30.7 | 35.7 | 37.0 | 35.6 | 34.1 | 34.0 | 32.7 |
| Services trade balance | -19.9 | -15.6 | 2.1 | -9.0 | -5.7 | -2.4 | -0.7 | 1.2 | 2.1 | 1.9 |
| Receipts | 3.4 | 7.4 | 18.1 | 13.7 | 14.9 | 16.3 | 18.1 | 18.9 | 18.9 | 18.9 |
| Of which: travel | 0.2 | 3.8 | 12.0 | 10.0 | 11.2 | 12.6 | 14.4 | 15.1 | 15.2 | 15.2 |
| Payments | 23.3 | 23.1 | 16.1 | 22.7 | 20.7 | 18.7 | 18.9 | 17.6 | 16.8 | 17.0 |
| Primary income | 15.8 | 17.7 | 9.6 | 8.0 | 11.5 | 10.9 | 10.1 | 9.8 | 9.9 | 9.6 |
| Receipts | 20.2 | 20.9 | 14.9 | 15.4 | 16.5 | 16.0 | 15.6 | 15.2 | 14.8 | 14.4 |
| Gross Remittances | 20.6 | 17.8 | 15.0 | 15.2 | 16.3 | 15.8 | 15.4 | 15.0 | 14.6 | 14.2 |
| Payments | 4.4 | 3.2 | 5.4 | 7.4 | 5.0 | 5.1 | 5.4 | 5.3 | 4.9 | 4.9 |
| Secondary income | 17.8 | 8.9 | 12.1 | 9.7 | 12.0 | 10.6 | 10.2 | 10.0 | 9.9 | 9.7 |
| Official | 16.3 | 8.0 | 8.2 | 9.2 | 8.7 | 7.3 | 7.0 | 6.7 | 6.6 | 6.5 |
| ECP Revenues | 11.2 | 7.0 | 5.3 | 7.0 | 5.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Private | 4.5 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Capital and financial accounts | 22.2 | 9.1 | 3.6 | 15.2 | 7.6 | 6.3 | 7.2 | 6.1 | 6.0 | 6.2 |
| Capital account | 11.4 | 8.3 | 7.1 | 7.8 | 4.1 | 3.9 | 3.9 | 4.0 | 3.7 | 2.8 |
| Of which: Official capital transfers (net) | 5.4 | 3.9 | 5.9 | 7.0 | 3.1 | 3.0 | 3.0 | 3.2 | 2.9 | 2.0 |
| Financial account | 10.8 | 0.8 | -3.4 | 7.3 | 3.5 | 2.4 | 3.4 | 2.1 | 2.3 | 3.4 |
| Foreign direct investment | 3.7 | 2.3 | 1.1 | 4.2 | 3.7 | 3.3 | 3.1 | 3.1 | 3.0 | 2.7 |
| Portfolio investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment | 7.1 | -1.4 | -4.5 | 3.2 | -0.2 | -0.9 | 0.3 | -1.0 | -0.6 | 0.7 |
| Net errors and omissions | -4.9 | 6.0 | 0.0 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 5.5 | -2.5 | -3.0 | 1.7 | -4.0 | -5.3 | -2.5 | -0.6 | 0.2 | 1.2 |
| Financing: | -5.8 | 2.3 | 2.8 | -1.9 | 3.9 | 5.3 | 2.5 | 0.6 | -0.2 | -1.2 |
| Change in international reserves (- = increase) | -5.5 | 2.5 | 3.0 | -1.7 | 4.0 | 5.3 | 2.5 | 0.6 | -0.2 | -1.2 |
| IMF RCF/RFI | -0.3 | -0.2 | -0.2 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | |
| Gross international reserves | 72.2 | 61.7 | 53.7 | 57.2 | 51.6 | 43.8 | 39.2 | 36.9 | 35.5 | 35.1 |
| In months of prospective imports | 11.7 | 11.6 | 11.2 | 10.5 | 9.4 | 8.1 | 7.7 | 7.4 | 7.3 | 7.4 |
| Exports of goods (annual percentage change) | -9.7 | 38.0 | -16.1 | 19.3 | -3.2 | 5.9 | 4.8 | 5.4 | 5.2 | 5.3 |
| Imports of goods (annual percentage change) | -2.6 | 28.5 | 9.4 | -16.9 | 19.3 | 8.9 | 1.2 | 0.1 | 4.3 | 0.4 |
| Exchange rate (vatu per U.S. dollar, period average) | 112.9 | 117.6 | 118.1 | 122.3 | ... | ... | ... | ... | ... | ... |
| Exchange rate (vatu per U.S. dollar, end of period) | 112.2 | 117.2 | 116.5 | 123.8 | ... | ... | ... | ... | ... | ... |
| Public external debt | 40.7 | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 | 33.1 | 33.7 | 35.0 | 36.5 |
| Public external debt service (percent of G&S exports) | 40.6 | 26.9 | 14.6 | 7.9 | 9.0 | 9.5 | 8.7 | 8.2 | 7.9 | 6.3 |
| Nominal GDP (in millions of U.S. dollars) | 921 | 1,035 | 1,125 | 1,090 | 1,119 | 1,176 | 1,235 | 1,292 | 1,351 | 1,413 |

Sources: Vanuatu authorities; and IMF staff estimates and projections.

Table 6. Vanuatu: Bank Financial Soundness Indicators, 2018–24

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------|------|------|------|------|------|------|
| Capital adequacy | | | | | | | |
| Regulatory capital to risk-weighted assets | 20.1 | 19.2 | 20.0 | 23.2 | 23.1 | 24.1 | 23.3 |
| Regulatory Tier 1 capital to risk-weighted assets | 16.3 | 17.9 | 18.9 | 21.0 | 19.8 | 19.8 | 19.4 |
| Asset quality | | | | | | | |
| Nonperforming loans net of provisions to capital | 52.2 | 42.5 | 57.5 | 45.4 | 42.1 | 56.6 | 40.3 |
| Nonperforming loans to total gross loans | 16.0 | 14.3 | 19.0 | 15.8 | 15.1 | 19.6 | 14.8 |
| Earnings and profitability | | | | | | | |
| Return on assets | 1.5 | 0.1 | -0.1 | 0.8 | 1.1 | 2.0 | 2.3 |
| Return on equity | 13.0 | 0.9 | -0.6 | 6.0 | 9.1 | 13.9 | 16.2 |
| Interest margin to gross income | 65.3 | 65.1 | 68.0 | 68.8 | 64.1 | 60.4 | 58.8 |
| Noninterest expenses to gross income | 63.2 | 70.4 | 78.1 | 72.5 | 71.1 | 65.5 | 57.9 |
| Liquidity | | | | | | | |
| Liquid assets to total assets (liquid asset ratio) | 45.2 | 43.6 | 44.0 | 46.7 | 45.9 | 46.3 | 50.3 |

Source: Reserve Bank of Vanuatu.

Table 7. Vanuatu: Capacity Development Activities

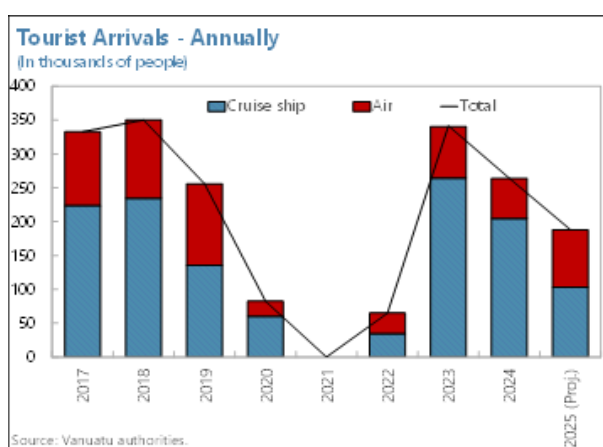
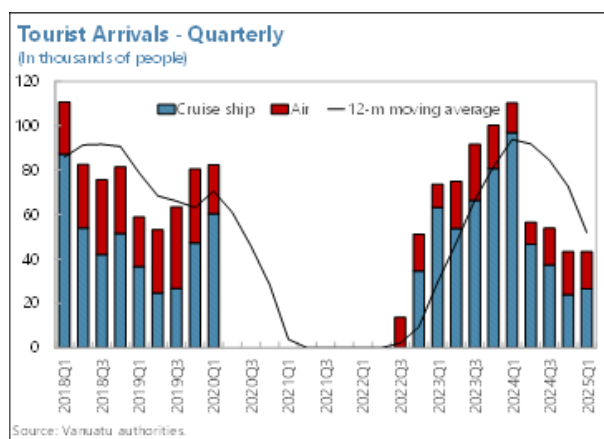
| Surveillance Issues | IMF | | | Asian Development | | World Bank | |
|--------------------------------------|------|--------------------|---------------------|-------------------|---------------------|------------|---------------------|
| | Past | 2024 ^{1/} | Planned/ Ongoing | Past | Planned/ Ongoing | Past | Planned/ Ongoing |
| <u>Fiscal Sector:</u> | | | | | | | |
| Public financial management | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| Expenditure framework | | | | | | | |
| Revenue framework | ✓ | ✓ | ✓ | | | | |
| Debt management | | ✓ | ✓ | | | | |
| <u>Macro-financial Issues:</u> | | | | | | | |
| Financial Supervision and Regulation | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Financial Market Development | | | | ✓ | ✓ | | |
| Correspondent Banking Partnerships | | | | | ✓ | | |
| <u>Macroeconomic Framework:</u> | | ✓ | ✓ | | | | |
| Macroeconomic Framework | | ✓ | ✓ | | | | |
| Macroeconomic Programming | | | | | | | |
| <u>Macro-structural Issues:</u> | | | | | | | |
| Infrastructure | | | | ✓ | ✓ | ✓ | ✓ |
| Private sector development | | | | ✓ | ✓ | | |
| Governance issues | | | | ✓ | ✓ | | |
| Poverty/gender/inequality | | | | | | | |
| Climate change | | | | | | | |
| Natural disaster management | | | | | | ✓ | ✓ |
| Financial inclusion | | | | ✓ | ✓ | | |
| <u>Statistics:</u> | | | | | | | |
| Data enhancement | ✓ | ✓ | ✓ | | | | |
| 1/ IMF Fiscal year. | | | | | | | |

Annex I. Near-Term Growth Assumptions

The near-term outlook is subject to significant uncertainties regarding the recovery in tourism following the liquidation of Air Vanuatu and the devastating earthquake (which damaged important tourism and business infrastructure) in 2024, as well as the post-earthquake reconstruction activities. The tourism and construction sectors are key drivers of growth in Vanuatu, accounting for 30 and 6 percent of GDP, respectively. This annex outlines the team's baseline assumptions regarding these factors and the associated risks.

Tourism Recovery Following the Liquidation of Air Vanuatu and the December 2024 Earthquake

- Impact:** Air Vanuatu's liquidation in May 2024 and the closure of its international flights caused significant tourism disruptions. This situation was compounded by the December 2024 earthquake, which damaged the cruise terminal in Port Vila (one of only two in Vanuatu; the other is in Santo, which was unaffected by the earthquake). As a result, air and cruise arrivals fell by 25 and 17 percent, respectively, dragging total tourist arrivals down by 19 percent in 2024.
- Assumed recovery path:** As of May 2025, international connectivity to Vanuatu has fully recovered, with more flights from Australian and regional carriers than before Air Vanuatu's liquidation. Air arrivals surged 49 percent in Q1 2025, but cruise-ship tourism fell 43 percent as the port was damaged by the earthquake, and a full recovery in that sector is not expected this year. The staff baseline projects a 44 percent year-on-year rebound for 2025—driven by a very low 2024 base—though growth will remain constrained by retail closures and limited domestic connections. The recovery is expected to pick up in 2026 with the reopening of cruise ports and the resumption of post-earthquake reconstruction, reaching pre-pandemic levels by 2028. Cruise arrivals have lagged: Port Vila calls have been suspended since the December earthquake, though a temporary tender port is in place, and cruise calls have started to return in August 2025, with full cruise recovery not anticipated until 2029.



- **Risks around baseline:** Prolonged domestic connectivity issues and hotel supply constraints (due to earthquake damage) may hinder Vanuatu's tourism appeal, slowing recovery. Conversely, reliable international and regional carriers could attract more foreign visitors, supporting a stronger tourism rebound.

Post-Earthquake Reconstruction

- **Impact:** The earthquake caused widespread infrastructure damage, disrupted domestic supply chains, and caused the temporary closure of Port Vila's Central Business District (CBD). However, many businesses were able to relocate to suburban areas and most jobs were preserved, which helped cushion economic disruptions and adverse impacts on the productive capacity of the economy. Total losses are estimated at US\$197 million—about 17 percent of Vanuatu's 2023 GDP,¹ which is expected to be mitigated via higher external grants (Table 1) and insurance payments that are expected to support reconstruction spending.
- **Assumed reconstruction timeline:** The reconstruction efforts include large-scale demolition of unsafe structures. As of August 2025, the CBD has partially reopened, with many businesses (that have not already relocated to suburban areas) resuming their operations. The staff baseline assumes that reconstruction, prioritizing critical infrastructure, will start to ramp up in the second half of 2025, contributing to projected growth of 2.0 percent and 4.0 percent in the construction sector for 2025 and 2026, respectively. This rebuilding effort is essential for mitigating the near- and medium-term adverse impacts of the earthquake on economic activity and for minimizing any permanent losses.
- **Risks around baseline:** Limited skilled labor, financing constraints, and the authorities' limited implementation capacity may slow the reconstruction process, along with delays in resuming critical infrastructure and services, posing downside risks to the baseline. Conversely, faster reconstruction, especially with improved infrastructure, could enhance both near- and medium-term growth prospects.

¹ Damage estimates are from the World Bank's Global Rapid Post-Disaster Damage Estimation (GRADE), published in January 2025. The impact was largely confined to Port Vila but with spillovers felt across the islands.

Table 1. Vanuatu: Donor Support post Dec-2024 Earthquake

| Donor / facility | Amount (US \$mn) | Instrument & purpose | Effective date |
|-----------------------|------------------|---|--|
| World Bank | 42 | Crisis Preparedness & Response Toolkit: US\$12 million in Rapid Response Option grant financing. Recovery & Resilience grant: US\$30 million; \$20 mn of this for rebuilding damaged schools, hospitals and urban roads; \$10 mn Contingent Emergency Response Component (CERC) can be tapped for any future disaster or health emergency. | Dec 24, 2024 (US\$12 m) Jan 16, 2025 (US\$30 m) |
| ADB | 5 | Asia-Pacific Disaster Response Fund grant covering temporary shelters, water-purification units and emergency health services. | Dec 24, 2024 |
| UN CERF | 1 | Central Emergency Response Fund allocated US\$1 million, channeled through UNICEF, UNFPA and WHO, to restore safe water, distribute emergency shelter kits and deploy mobile health clinics. | Dec 19, 2024 |
| Australia | 4.5 | AUD 7 million in humanitarian aid pledged to support earthquake recovery efforts. | Dec 18, 2024 |
| New Zealand | 2.3 | Emergency grant delivered urgent humanitarian aid—shelter kits, medical and water-purification support, and search-and-rescue teams—to meet immediate needs after the earthquake. | Dec 18, 2024 |
| IFRC Emergency Appeal | 5.2 | International Federation’s multi-donor appeal funds for shelter, livelihoods recovery and disaster-risk-reduction training. | Dec 20, 2024 |

Annex II. Effect of Global Trade Shocks and Uncertainty

1. **Baseline projections.** The overall impact of higher global tariffs is expected to be modest given Vanuatu's limited export exposure—roughly a 0.2 percentage-point drag on growth in 2025 and 0.1 in 2026, based on tariffs announced as of Aug 1. The direct effect of the announced 15 percent U.S. tariff on exports to the United States is small—about 0.1 percentage point—with exports to the U.S. accounting for only 0.65 percent of Vanuatu's GDP. A larger part of the growth shock comes from indirect channels through reduced demand from key trading partners (Thailand, Japan, and China) and key tourism source countries (Australia and New Zealand). With goods and tourism exports as two main drivers of GDP growth, indirect channels would reduce growth by another 0.1 percentage point in 2025.

2. **Downside scenario.** In an adverse scenario where external demand from major trading partners and tourism source markets is further constrained due to a larger impact of the trade tensions and associated heightened uncertainty, the growth impact on Vanuatu could be amplified through indirect channels. The lower growth and external demand would further strain fiscal revenues and FX reserves. Should such downside scenario materialize, contingent policy responses could include prudent monetary policy accommodation, increased targeted and time-bound support to vulnerable groups, improved government spending efficiency, strengthened prudential policies to safeguard financial stability, and accelerated structural reforms to enhance resilience. Given that the global shock may be protracted—and in light of Vanuatu's longstanding vulnerabilities to natural disasters—any support should be carefully calibrated to preserve buffers, protecting the already limited policy space and delicate macro-fiscal sustainability over the medium-term.

Annex III. Authorities' Actions to Previous Fund Policy Advice

| Fund Recommendation | Policy Actions |
|--|---|
| Fiscal Policy | |
| Formulate a medium-term fiscal strategy and establish a fiscal anchor; complete the proposed 2017 tax reforms that include the introduction of a personal and corporate income taxes; implement fiscal consolidation to stabilize expenditures. The fiscal strategy should contain new revenue mobilization policies, including a well-designed income tax, and an expenditure rationalization agenda, while protecting productive and climate-critical infrastructure spending. | <ul style="list-style-type: none"> The authorities have initiated a proposal for a medium-term revenue strategy which includes introducing an income tax. New revenue mobilization measures being explored include : a) exploring options in the medium term to broaden the tax base, including by introducing a personal income and corporate tax; b) fast-tracking the procurement of the purchase of a new VAT monitoring system to meet the 2025 budget target; c) undertaking a full review of the Excise Tax Act and import duties to help fill any revenue gaps; d) collecting dividends from the SOEs by effectively implementing the GBEU Act. Several measures are being undertaken/proposed on the Citizenship program to address governance and transparency issues. Strategies for expenditure rationalization have yet to be formulated. |
| Properly manage fiscal risks by minimizing the contingent liabilities of Air Vanuatu; establish effective supervision and transparency of SOEs and limit and prioritize their external borrowing. | <ul style="list-style-type: none"> The restructured airline still needs an effective business strategy to return to profitability and will remain a drag on the budget if operational and management challenges are not addressed comprehensively. Effective coordination between the government and the airline's management is critical in this regard. |
| Monetary Policy | |
| The RBV should remain data-driven, and the RBV should stand ready to tighten if there are signs of persistent inflation and rapid credit growth. | <ul style="list-style-type: none"> The RBV raised the monetary policy rate to 2.75 percent, and the capital adequacy ratio to 12 percent to address inflationary pressures in September 2024. The authorities will continue to monitor economic conditions and adjust the policy stance as needed. |
| Financial Sector Policy | |
| Strengthen supervisory capacity and systemic risk monitoring. | <ul style="list-style-type: none"> The RBV has increased engagement with PFTAC and completed reviews of prudential standards on capital, liquidity, large exposures, and business continuity management. Staff have received training in financial risk analysis and reporting (July 2023), and reviews of quarterly balance sheet and profit/loss returns have been completed. Further work is ongoing to develop and implement a formal bank resolution framework and to expand systemic risk analysis capacity. |
| Strengthen legal frameworks and institutional capacities on AML/CFT. | <ul style="list-style-type: none"> Legislative frameworks have been developed and amended, including the AML/CFT Act about its governance and structure resulting in re-establishing the Financial Intelligence Unit as an independent institution. The RBV has reviewed its supervisory rating model and continues thematic examinations of asset quality. Work is progressing on amendments to the RBV Act, FIA, and IBA to strengthen independence, governance, and enforcement powers. |
| Strengthen the RBV's autonomy, governance, and accountability to help ensure the continuation of effective monetary and financial policies consistent with the RBV's mandate. | <ul style="list-style-type: none"> The authorities are ready to advance legislative reforms to the RBV Act, with IMF Legal TA support, to strengthen the Bank's independence, governance, and accountability. The authorities are also committed to strengthening external oversight by implementing a duly constituted Board Audit Committee remain priorities. The authorities have also committed to repealing the 2022 RBV Act amendments that expanded monetary financing limits, and to phasing out primary market purchases of government securities. |
| Structural Policy | |
| Diversify the economy to foster stable growth and resilience. Enact reforms to address governance and corruption weaknesses, including the governance of SOEs. | <ul style="list-style-type: none"> Work to create the Economic Development Zone (EDZ) and Economic Corridors are progressing. A government delegation visited Fiji in June this year to study how they have implemented their free trade zone areas. A Constitutional Amendment was also passed earlier this year to give formal recognition to EDZ legislation, which includes the legal establishment of the zones. The GBE Act was passed in 2024, but further progress on SOE oversight and financial reporting has yet to be implemented. |

| Fund Recommendation | Policy Actions |
|--|---|
| Natural Disasters and Climate Change | |
| <p>Integrate financing plans, consistent with a medium-term fiscal strategy, for the adaptation plan and disaster response in a more efficient and effective manner.</p> | <ul style="list-style-type: none"> • The authorities launched the National Adaptation Plan and Vehicle Emissions Standards project in September 2024. A new National Loss and Damage Policy with an Implementation Roadmap was also launched in July 2025. • The authorities have amended the Disaster Risk Management Act (2024). • The authorities have not integrated climate investment needs or disaster response into medium term fiscal planning. |

Annex IV. External Sector Assessment

Overall Assessment: The external position of Vanuatu in 2024 was moderately weaker than the level implied by fundamentals and desirable policies. Provisional estimates point to a significant widening of the current account deficit on the back of lower tourism and non-tourism receipts and related higher service payments linked to the liquidation of Air Vanuatu. Foreign reserves increased in 2024, largely supported by external grants related to the earthquake, and expected to decline but remain adequate over the medium-term. The current account gap is estimated at -1.1 percent of GDP, corresponding to a real effective exchange rate overvaluation of 4.2 percent. However, the estimates are subject to considerable uncertainty due to data gaps which may not adequately capture the unique characteristics of Vanuatu and the large measurement errors associated with the significant periodic revisions of the current account.

Potential Policy Responses: Enhancing the policy mix, including through consolidating the fiscal position and rebuilding fiscal buffers, promoting export diversification and value addition, and boosting productivity is needed to reduce the current account deficit and preserve medium-term external viability. The currency basket should also be reviewed regularly to ensure that it accurately reflects the country's changing trade structure.

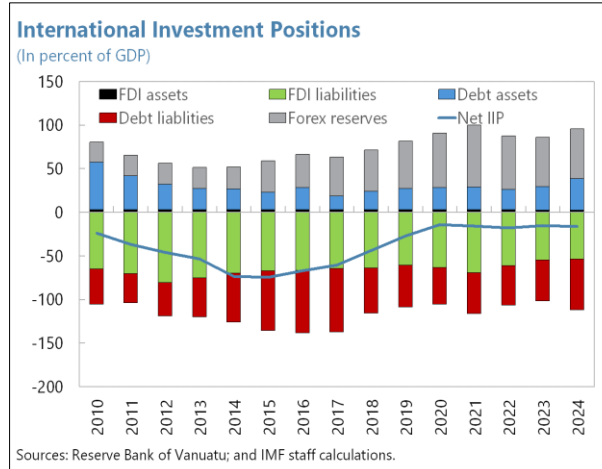
Foreign Assets and Liabilities: Position and Trajectory

Background:

The net international investment position (NIIP) remained steady at -15.9 percent of GDP in 2024, mainly driven by the increase in debt liabilities, while foreign direct investment (FDI) liabilities fell slightly. Reserve assets increased to 57 percent of GDP, representing more than half of total assets, while other debt assets rose to 36.2 percent of GDP. On the liabilities side, FDI liabilities declined to around 53.5 percent of GDP, from an average of 61.7 percent over the last 5 years, while debt liabilities rose to around 58 percent of GDP.

Assessment:

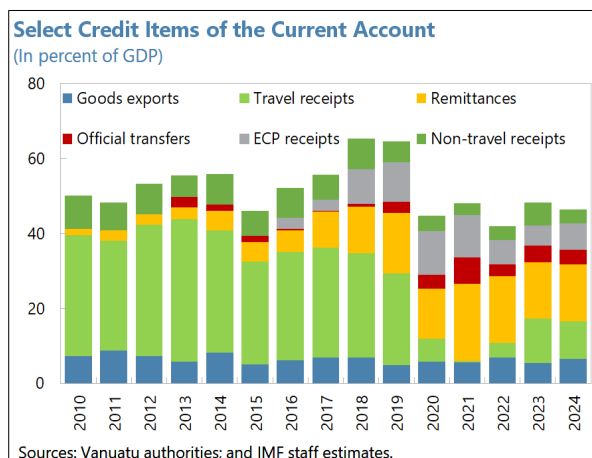
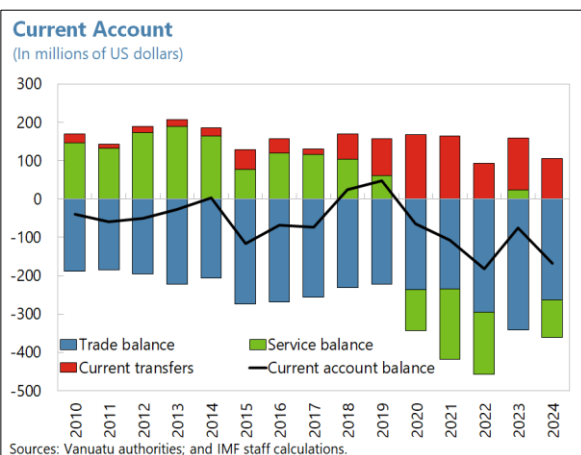
Vanuatu's NIIP is expected to remain negative over the medium-term. Given the large and persistent current account deficits, debt liabilities are expected to increase, however they mostly reflect concessional loans, which somewhat reduces vulnerabilities to the NIIP. FDI inflows which constitute around half of total international liabilities are generally more stable than portfolio liabilities (which are negligible). In addition, the country's international liabilities position is subject to exchange rate risks.



| | | | | | |
|-----------------|-------------|---------------------|--------------------|-------------------------|-------------------------|
| 2024 (% of GDP) | NIIP: -15.9 | Gross Assets: 96.3% | Debt Assets: 36.2% | Gross Liabilities: 112% | Debt Liabilities: 58.4% |
|-----------------|-------------|---------------------|--------------------|-------------------------|-------------------------|

Current Account

Background. The current account deficit is estimated to have widened to 15½ percent of GDP in 2024, following average deficits of 12.0 percent from 2021 to 2023 during the pandemic period. The deterioration is largely contributed by the sharp declines in tourism (-16 percent y/y) and non-tourism (transport: -48 percent y/y, postal & courier: -27 percent y/y, & telecommunication: -8 percent y/y) earnings, accompanied by higher transport^{1/} payments given the liquidation of Air Vanuatu. The current account deficit is projected to remain high at 11½ percent of GDP in the near-term, as continued remittances and grant inflows, and a moderate recovery in tourism earnings only partially offset increased imports for post-earthquake reconstruction and infrastructure projects.



Assessment. The EBA-Lite results imply that Vanuatu's external position in 2024 was moderately weaker than the level implied by fundamentals and desirable policies. The model indicates a current account gap of - 1.1 percent of GDP in 2024, estimated as the difference between the cyclically adjusted current account balance of - 3.9 percent of GDP and the current account norm of - 2.8 percent of GDP. The cyclical adjustments also incorporate the temporary impact of Air Vanuatu liquidation and associated travel disruptions on tourism and air transport services, which are not adequately captured by the model's cyclical adjustments. The high import content of the aviation business suggests that the import payments (fuel, aircraft spare parts, maintenance, etc.) typically associated with the airline's operation are unlikely to be incurred given the ceasing of international flights. Staff assesses a large one-off component in the net air transport services balance for 2024, supporting the case for an adjustor. The positive policy gaps are primarily driven by the fiscal balance and public health spending. The large unexplained residual (-6.9 percent of GDP) potentially reflects idiosyncratic features of Vanuatu and structural distortions (such as export and investment impediments) which are not captured in the model.

1/ Transport payments for both air (passenger) and sea (freight & others) transport payments increased in 2024.

Vanuatu: EBA-lite Model Results, 2024

| | CA model 1/ (in percent of GDP) | REER model 1/ |
|---|---------------------------------------|---------------|
| CA-Actual | -15.4 | |
| Cyclical contributions (from model) (-) | 0.2 | |
| Additional temporary/statistical factors (-) 2/ | -10.1 | |
| Natural disasters and conflicts (-) | -1.5 | |
| Adjusted CA | -3.9 | |
| CA Norm (from model) 3/ | -2.8 | |
| Adjustments to the norm (+) | 0.0 | |
| Adjusted CA Norm | -2.8 | |
| CA Gap | -1.1 | 0.4 |
| o/w Relative policy gap | 3.2 | |
| Elasticity | -0.3 | |
| REER Gap (in percent) | 4.2 | -1.4 |

1/ Based on the EBA-lite 3.0 methodology

2/ Additional adjustment to account for the temporary impact of Air Vanuatu liquidation on tourism, air transport and import payments.

3/ Cyclically adjusted, including multilateral consistency adjustments.

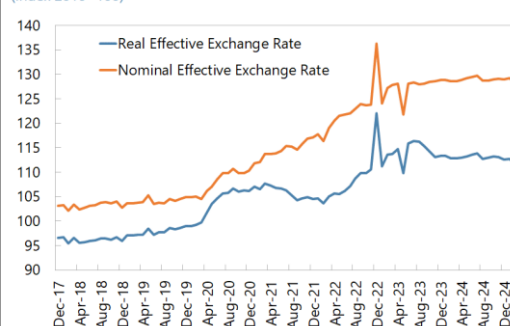
Real Exchange Rate

Background. The real effective exchange rate (REER) has been on an appreciation trend since 2021, which has helped cushion the impact of rising import prices. However, the REER depreciated marginally in 2024, due to the nominal depreciation of the Vatu against the USD and a sharp disinflation in domestic prices.

Assessment. Applying the estimated trade elasticity (0.3), the current account gap indicates a REER overvaluation of 4.2 percent. The REER model results, on the other hand, point to a much smaller REER gap of -1.4 percent. However, due to poor fit of the REER model for Vanuatu, staff relies more on the current account-based REER assessment, which points to an overvaluation of about 4.2 percent. These results highlight the importance of regularly reviewing the currency basket to ensure that it accurately reflects the

Real Effective Exchange Rate

(Index 2010=100)



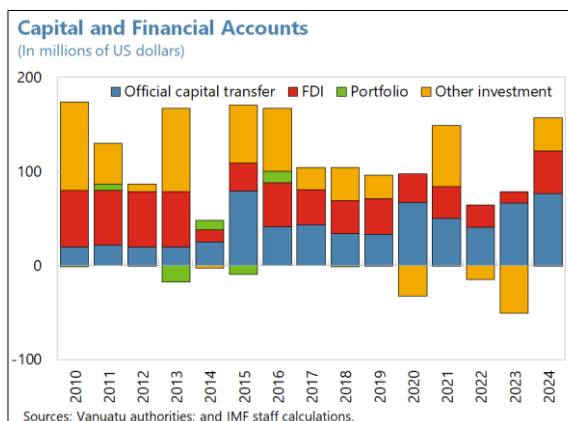
Sources: Vanuatu authorities; and IMF staff calculations.

country's changing trade dynamics. Promoting export diversification and value addition especially of agriculture products, enhancing productivity, and strengthening public finances would help bring the external position in line with fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. Vanuatu's capital and financial account flows are largely driven by capital grants, FDI and other investment assets in 2024. The capital account balance recorded a surplus of 7.8 percent of GDP in 2024, attributed to higher official transfers for general government. The positive financial account balance is explained by the increase in FDI estimated at 4.2 percent of GDP, and the accumulation of other investment assets at 3.2 percent of GDP.

Assessment. Capital account inflows are expected to continue supported by government grants, while FDI will remain around 3 percent of GDP in the medium term. Fast-tracking structural reforms to attract and retain FDI are crucial for Vanuatu's economic diversification and growth. These include investing in quality and climate-resilient infrastructure, promoting a conducive business environment through streamlining of foreign investment application and registration processes, and reviewing the country's reserved and restricted investment activities.^{2/}

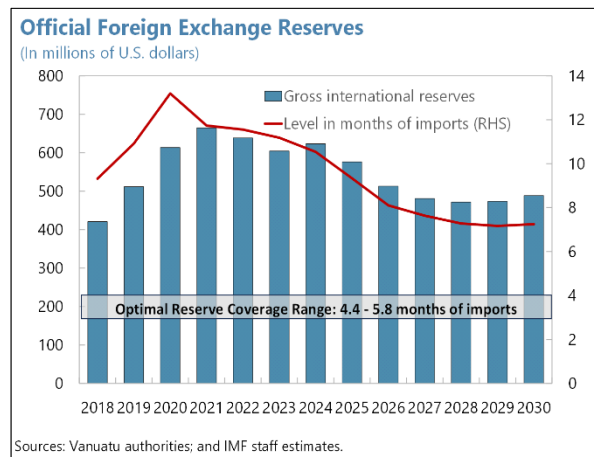


FX Intervention and Reserves Level

Background. Vanuatu's gross official reserves increased to US\$623 million (10.5 months of imports) in 2024, supported by higher grants related to the earthquake, improvements in goods exports and ECP revenues.

^{2/} FDI in Vanuatu is dominated by wholesale and retail trade, information and communication, while sectors such as real estate, utilities and professional services remain underdeveloped. The current review of Vanuatu's Reserve and Restricted Investment Lists led by the Vanuatu Foreign Investment Promotion Agency should help support FDI in the country.

Assessment. A reserve adequacy methodology for credit constrained economies is used to estimate the optimal level of reserves by comparing the benefits of reserves in reducing the likelihood and severity of a crisis against the cost of holding reserves.^{3/} When measured against Vanuatu's vulnerability to external shocks, the adequate level of reserves falls is estimated to be within the range of 4.4 to 5.8 months of imports. The reserve cover is expected to fall to around 7.4 months of imports by 2030, and gradually improve to around 9 months of imports over the longer term, assuming a stable external environment without any major shocks. Maintaining ample reserves is crucial given the large import needs for reconstruction and provide a buffer against natural disasters and external shocks.



^{3/} The optimal reserve adequacy range is based on the sample average of countries (50 percent) and considers Vanuatu's vulnerability to natural disasters (50 percent and 75 percent), and the marginal cost of holding reserves of 2.16 percent. (see 2013 IMF paper on ARA – Further Considerations).

Annex V. Risk Assessment Matrix

| Source of Risk | Likelihood | Expected Impact | Policy Recommendations |
|---|------------|--|--|
| Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge. | High | Medium. Global economic slowdown particularly in main trading partners could negatively affect growth prospects via trade, tourism, and remittances. | Targeted policy support to vulnerable segments of the economy, closely monitoring potential inflationary pressures. |
| Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings. | High | Medium. Vanuatu is highly exposed to increases in global energy and food prices, as well as to supply chain disruptions, given its heavy reliance on imports. Domestic food prices are also particularly vulnerable to the impacts of climate change and natural disasters. | Monitor inflation developments closely and adapt monetary policy as needed to address price pressures, while enhancing climate-resilient agricultural practices. |
| Political instability can lead to delays in executing major infrastructure projects. | Medium | High. Delays in major infrastructure projects could negatively affect activity and growth prospects. | Long-term planning and stronger PFM to support effective execution, foster and greater transparency and accountability. |
| Further drop in ECP revenues amid growing concerns regarding AML/CFT risks, amplified by loss of key correspondent banking relationships. | High | High. A structural decline in ECP revenues could undermine medium-term fiscal sustainability. | Consolidate fiscal position, rebuild buffers, and preserve fiscal space with domestic revenue mobilization and expenditure rationalization. |
| Increasing nonperforming loans (NPLs). Financial institutions' assets quality could further deteriorate as forbearance lapses and/or economic recovery stalls. | Medium | Medium. Higher NPLs could lead to tighter borrowing conditions, and potentially hinder financial inclusion. | Greater supervisory intensity (on-site and offsite) and enhanced risk-based sampling. Prudent loan management to support NPL reduction strategies. |
| Weak governance. Lack of transparency and weak oversight of state-owned enterprises (SOEs) could deteriorate their financial performance and induce large fiscal costs. | High | High. Weak SOE financial performance contributes to higher probability of contingent liabilities materializing. | Strengthen governance and oversight of SOEs, including by implementing the new GBE Act. |
| Weak financial integrity. Weaknesses in the AML/CFT framework and its implementation could undermine business confidence, and lead to further loss of CBRs. Lack of central bank autonomy could hamper monetary policy. | High | High. Weak FDI and instable monetary conditions could lead to slow economic growth and deterioration of external and fiscal sustainability. | Enhance banks' compliance with global AML/CFT standards, integrated into broader operational risk assessment. Follow through with Safeguards Assessment recommendations. |
| Natural disasters. Frequent natural disasters, including those driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. | Medium | High. Vanuatu faces high natural disaster risk, including tropical cyclones, earthquakes, floods, and volcanic activities. Recurring natural disasters are detrimental to growth and stability. | Develop and implement disaster-resilient infrastructure while aligning financing strategies and disaster response plans with a comprehensive medium-term fiscal framework. |

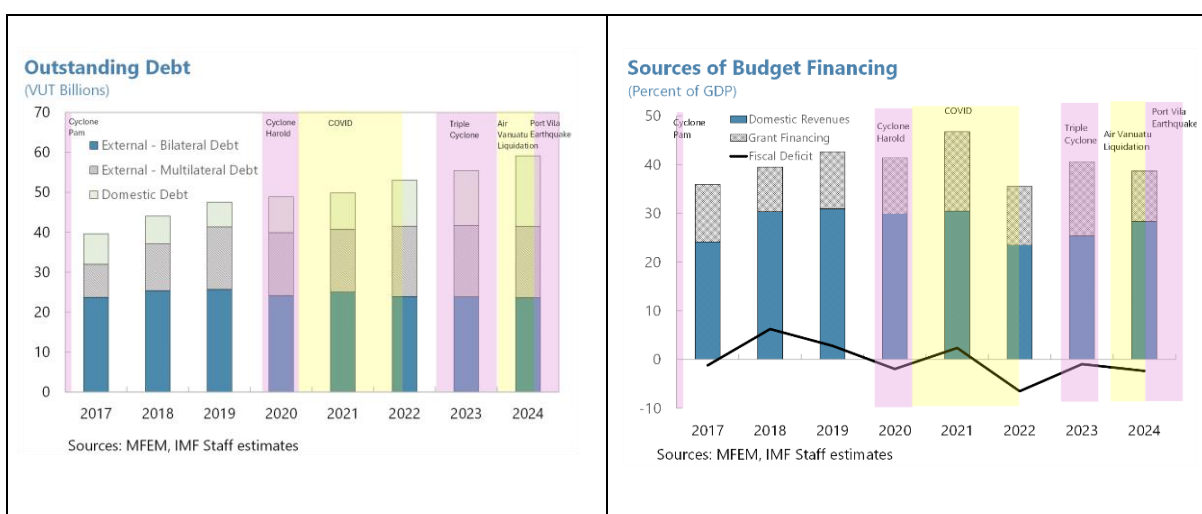
Annex VI. Vanuatu's Funding Landscape and Vulnerabilities¹

This note evaluates Vanuatu's funding landscape and assesses potential vulnerabilities that could exacerbate its already precarious fiscal situation. Given the recent external shocks to the system, from natural disasters in 2023 and 2024 and the liquidation of the national air carrier in 2024, the fiscal and debt situation in Vanuatu has come under increased stress, pushing the overall risk of debt distress to "high". With limited debt-carrying capacity, Vanuatu's reliance on external financing and constrained domestic investor base necessitates an urgently review of its medium-term debt- and financing-strategy as well as accelerated efforts to develop its domestic debt capital market.

Current State of Debt and Funding

1. The current state of Vanuatu's debt and external funding has been significantly influenced by recent natural disasters and the voluntary liquidation of the national carrier.

Outstanding debt has steadily risen in recent years, from under VUT 40 billion in 2017 (42 percent of GDP), to nearly VUT 60 billion in 2024 (44 percent of GDP). Over this period, the country faced several shocks, including four severe cyclones, the COVID pandemic, the failure of a national airline and most recently, a 7.3-magnitude earthquake in its capital city. As of end-2024, external debt comprised around 70 percent of total debt, with the remaining in domestic bonds and guarantees (30 percent). Vanuatu has historically relied heavily on external funding from bilateral and multilateral donors to fund its Budget, with grant funding amounting to around 12 percent of GDP between 2015-2024. This is equivalent to a third of the domestic revenues (around 38 percent of GDP) over the same period. In recent years, domestic revenues have dropped in the face of multiple shocks, resulting in reduced total revenues, leading to wider and more persistent fiscal deficits.

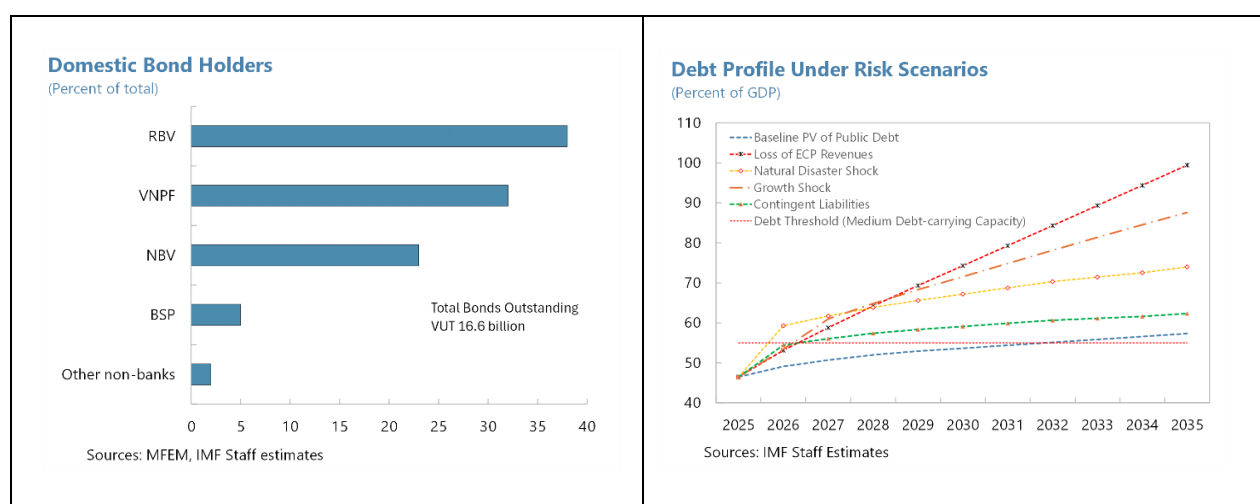


¹ Prepared by Narayan Suryakumar.

Risks and Challenges

While the public debt profile has been relatively steady in GDP terms, averaging around 44 percent of GDP between 2017-2024, it masks a steady deterioration in both debt and fiscal dynamics.

2. Firstly, the sharp increase in domestic debt in 2024 and the government's issuance forecast in 2025-26 raises concerns over the sustainability of domestic financing of future deficits. The persistent deficits over these past few years have been partly financed using expensive domestic debt, which has doubled from around 6 percent of GDP in 2019 to over 13 percent of GDP in 2024. Domestic debt outstanding rose around 3 percentage points of GDP in 2024 alone, the largest annual increase in at least a decade. The government's domestic debt is primarily held by four domestic entities, namely, the Reserve Bank of Vanuatu (RBV; that is, the central bank), the public provident fund VNPF, the state-owned National Bank of Vanuatu (NBV) and PNG-based BSP bank. As of 2024, VNPF and RBV held a combined 70 percent of domestic government debt, while NBV (23 percent) and BSP (5 percent) held most of the remaining debt. The government's issuance forecasts for 2025 suggests that between VT3-4 billion in government bonds could potentially come to the market, bringing the outstanding domestic debt to around VT19 billion (17 percent of GDP). Moreover, domestic debt is projected to rise from 13 percent of GDP in 2024 to 23 percent of GDP by 2030 and 25 percent of GDP in 2035, to finance persistent fiscal deficits. Given the relatively shallow depth of the domestic debt market, absorbing the bulk of this issuance could prove difficult for the domestic creditors in the medium-term and may test the boundaries of borrowing from the RBV. This has increased financial stability risks pertaining to the sovereign-financial sector nexus as well as monetary financing. Moreover, the growing public debt has led to crowding out of the private sector – for instance, VNPF and NBV investments could instead be targeted towards supporting growth sectors in the economy. Additionally, given that domestic financing is significantly more expensive than concessional external debt,² the debt-service burden from domestic debt is expected to weigh on revenues in the medium-term.

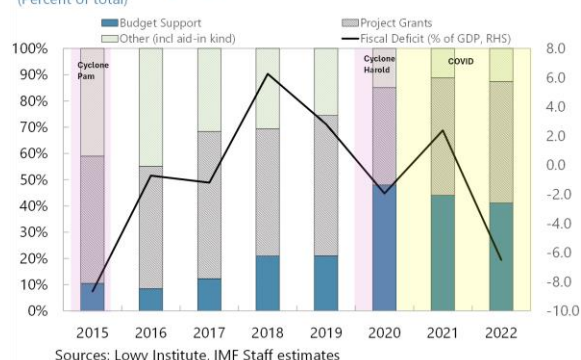


² Longer-term domestic currency bonds are estimated to have nominal yields between 7-9 percent.

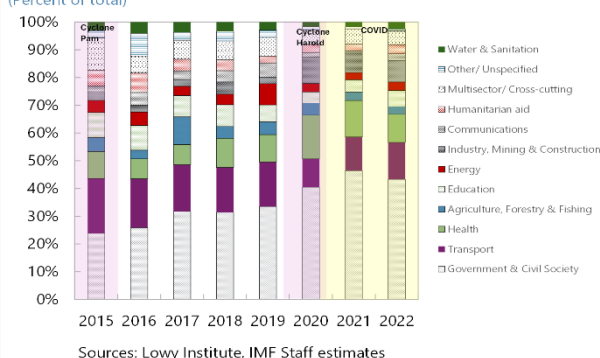
3. Secondly, Vanuatu's internal and external balances are increasingly susceptible to natural disasters and climate-related shocks, and the debt profile is highly sensitive to sharp downturns in economic activity. Increased reliance on revenues from the Economic Citizenship Program as well as rising pressures from the SOE sector (direct on budget, as well as actual and contingent liabilities) have also left the fiscal balances and public debt increasingly vulnerable to sudden deterioration. Under a range of downside scenarios reflecting these shocks,³ the public debt profile is estimated to rapidly deteriorate, though the ECP revenue-loss scenario causes the maximum deterioration on the debt profile. The growth-shock and natural disaster scenarios highlight the increased sensitivity of the debt profile to growth in the medium-term, indicating the need to build buffers and resilience in the economy.

4. Thirdly, the flow and type of donor grants have not necessarily matched the government's needs during crisis periods, highlighting the need to build fiscal buffers during normal times. For instance, during the cyclone shocks in 2015 and 2020 and the COVID shock in 2021-22, while the proportion of budget support grants increased, most of the grant disbursements remained locked into projects, including those projects whose implementation was constrained by the external shock.⁴ During such periods the fiscal deficits have ballooned, and, given the growing incidence of natural and climate-related disasters in the country, there is an ever-increasing burden on domestic revenues to finance these persistent deficits. Combined with the rapidly growing infrastructure investment needs for climate adaptation, the country faces a daunting funding challenge into the medium-term. A significant portion of grants have historically supported the transport, government and education sectors, with an increasing amount being diverted to health following the COVID pandemic.

Donor Grants - by Type
(Percent of total)



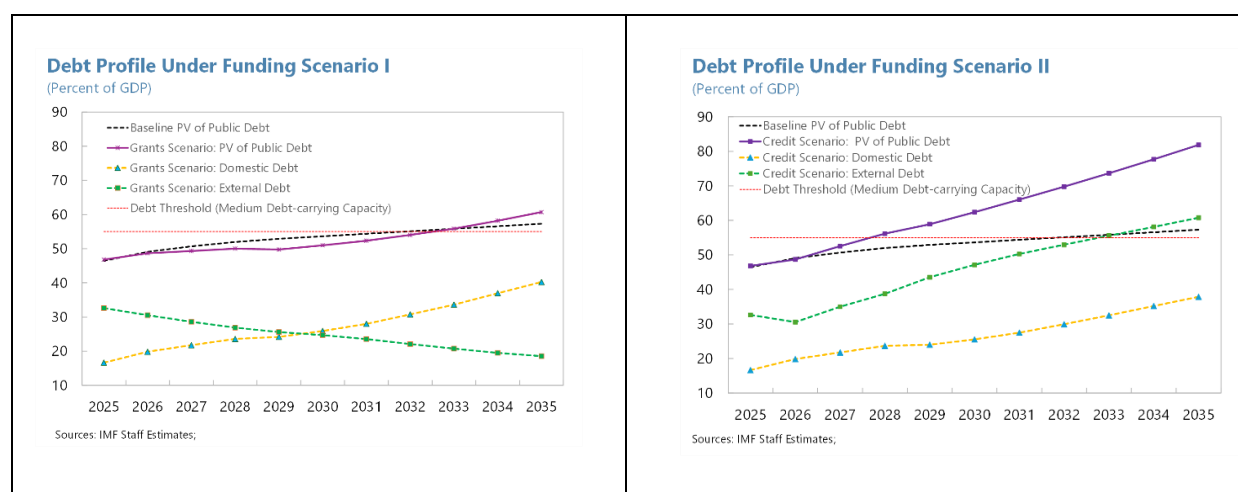
Donor Grants - Sectoral Breakdown
(Percent of total)



³ All the downside scenarios for the debt profile are detailed in the DSA annex.

⁴ Grant-based project financing disbursements are usually pre-determined by donors, based on project completion rates, and cannot be transferred to budget-support mid-way.

5. The impact of DSA rating changes on the funding prospects of Vanuatu will remain in focus in the near-term. The deterioration in the external debt distress rating, to “high” in the June 2024 DSA, prompted some creditors⁵ to change the composition of their funding for FY 2025 to entirely comprise of grants. The intent was to provide some funding relief to Vanuatu and avoid a further deterioration of the external debt profile. The subsequent improvement in the external debt distress rating in the current DSA, following the creditors’ agreement for Air Vanuatu, implies the same donors would review their funding composition for the following years. This potentially raises some uncertainty over the availability of grant financing in subsequent years and the implications for the public debt profile. A stylized scenario analysis (Scenario I) reveals that when key creditors shift entirely to grant financing into the medium-term,⁶ there is temporary relief to Vanuatu’s external and public debt profile in the near-term, but under unchanged current policies the country’s persistent financing needs eventually drive the domestic debt higher, causing public debt to breach the threshold level. Similarly, in a scenario (Scenario II) where creditors shift entirely towards loans into the medium-term,⁷ both external debt and domestic debt rise sharply to compensate for the fall in grants, causing public debt to breach the threshold much earlier than in baseline. While the likelihood of either hypothetical scenario materializing is relatively small, it highlights the significance of achieving an optimal funding mix that can be sustainable given Vanuatu’s vulnerabilities and financing needs under current policies. Periodically updating the MTDS and bolstering the debt management capacity of the MFEM is a critical step towards achieving this objective.



⁵ Based on discussions with creditors during the mission, only ADB and IDA have modified their funding composition following the DSA rating change.

⁶ The *Grants* scenario (Funding Scenario I) assumes a select subgroup of multilateral creditors (ADB and WB) offer only grants beginning in 2027. Loans/grants from all other creditors/donors are assumed to remain unchanged from the baseline. Macro-assumptions for real and external sector variables are unchanged, with fiscal deficits automatically adjusting higher/lower depending on grant/loan funding available and the associated costs.

⁷ The *Credits* scenario (Funding Scenario II) assumes a select subgroup of multilateral creditors (ADB and WB) offering only loans beginning in 2027. All other assumptions are similar to Scenario I above.

Policy Recommendations

6. To address the above challenges in Vanuatu's debt and funding landscape, urgent policy actions are essential. On the domestic front, there is a need to strengthen the fiscal responsibility framework - including by re-establishing a fiscal anchor (e.g., operationalized through a primary balance rule) and adhering to principles of responsible public financial management.⁸ Additionally, developing a medium-term fiscal strategy that focuses on robust revenue mobilization and expenditure rationalization measures is critical to ensure longer-term economic stability. The rising risks pertaining to domestic debt imply an urgent need to mobilize new revenues sources and address the domestic financing constraints. Reviewing the limits on the RBV's purchases of government bonds, as well as refocusing efforts on developing domestic government bond markets will also help reduce monetary financing and provide a stable financing alternative for the government. Ensuring transparency and effective management of past ECP revenues could generate a corpus fund that could support rebuilding fiscal buffers for future shocks. Additionally, establishing regulations and improving governance of Government Business Entities (GBEs) would help alleviate future fiscal shocks due to contingent liabilities from SOEs. On the external front, new funding should be assumed only on concessional terms or through grants, to avert any buildup of external debt risks. The steady erosion of foreign reserves envisaged into the medium term also necessitates exploring diversification of exports as well as prudent debt management strategies. These measures will help Vanuatu navigate its current and future fiscal challenges and help build a more resilient economic framework.

⁸ See 2024 Article IV Staff Report and Annex VII for details on the fiscal framework.

References

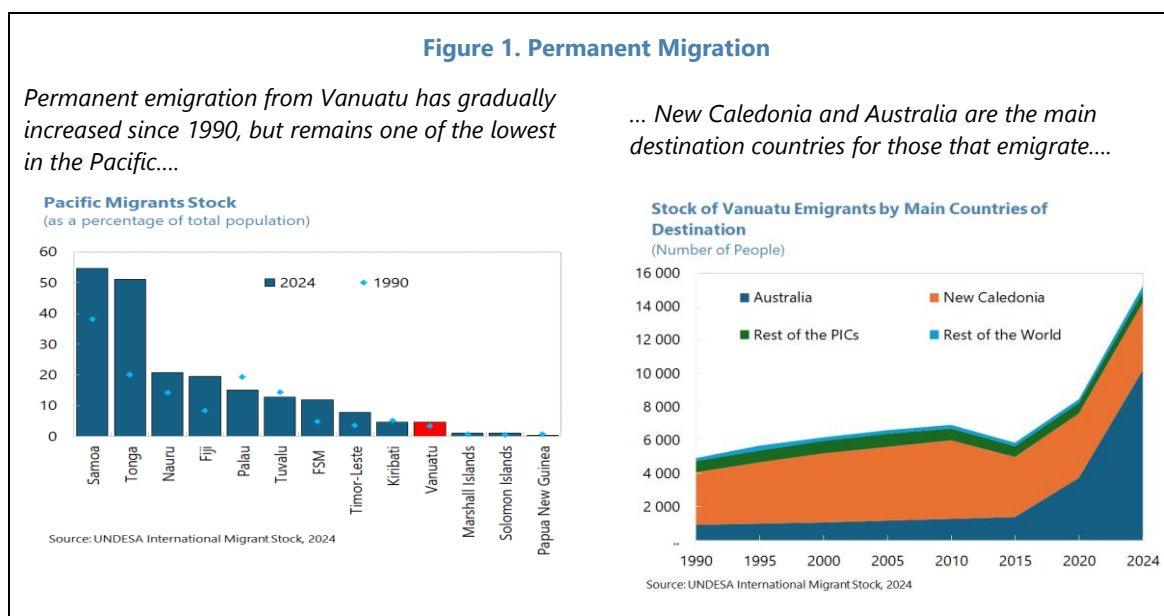
2024 Vanuatu Article IV Staff Report - Annex VII. Vanuatu's Fiscal Framework ([Vanuatu: 2024 Article IV Consultation-Press Release and Staff Report](#))

Annex VII. Labor Migration in Vanuatu¹

Vanuatu remains challenged by growing labor and skilled shortages. This annex assesses the country's labor migration trends – both permanent and temporary. It also discusses the development impacts on the country, focusing on the economic gains from migration and the costs due to loss of skilled workers, and policy implications.

Migration Trends

1. Vanuatu's share of population living abroad is among the lowest in the Pacific. The low emigration is in part due to limited access to external labor markets through skilled migration, visa lotteries and open access programs² compared to some Pacific Island countries (PICs) that benefit from preferential labor entry into advanced countries (Figure 1).³ The main destination countries for emigrants are New Caledonia and Australia reflecting their close economic, and colonial ties for the former. Ni-Vanuatu emigrants are relatively young and of prime working age and dominated by males.



¹ Prepared by Kalolaini Ranadi.

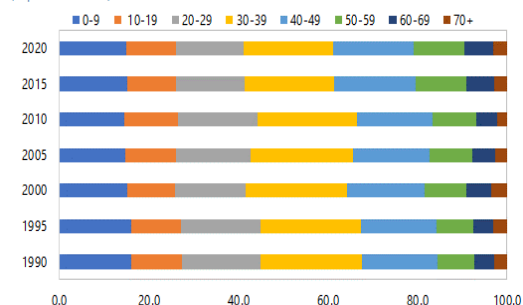
² Three PICs (Marshall Islands, the Federated States of Micronesia, and Palau) have open labor market access with the United States.

³ Vanuatu is not part of the Pacific Access Category which offers permanent residency for selected Pacific Islands (Fiji, Tonga, Kiribati and Tuvalu) in New Zealand. However, it is among the ten Pacific Island countries, including Timor-Leste allowed to participate in the Pacific Engagement Visa - a permanent residence visa introduced by Australia in 2024.

Figure 1. Permanent Migration (Concluded)

Majority of the population that emigrate are relatively young and of working age (20-49 years) ...

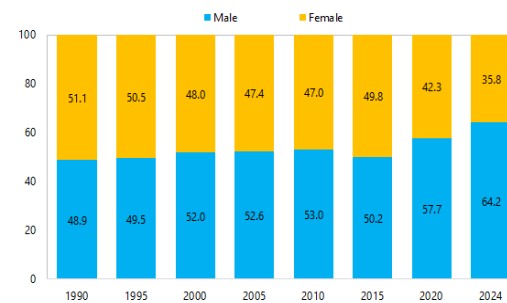
Distribution of the International Migrant Stock by Age
(In percent of total)



Source: UNDESA, International Migrant Stock 2020

And dominated by males.

Gender Distribution of Population Living Abroad
(In percent of total)



Sources: UNDESA, International Migrant Stock 2024, IMF Staff Estimates

2. Despite the low levels of permanent emigration, seasonal labor programs in Australia and New Zealand have created an important corridor for Vanuatu to access overseas labor markets. Vanuatu was among the five kickstart PICs that joined the New Zealand Recognized Seasonal Employer (RSE) scheme piloted in 2005/2006,⁴ and Australia's Pacific Seasonal Worker Pilot Scheme (PSWPS) introduced in 2008.⁵ Other regional labour mobility market exists for Vanuatu through the Skills Movement Scheme in the Melanesian Spearhead Group (MSG) countries, but its involvement has been negligible.⁶

3. Vanuatu's temporary labor migration to Australia and New Zealand has expanded remarkably since joining the schemes. The country has consistently supplied the largest number of workers, benefiting from its first mover advantage (Figure 2).⁷ In 2022-2023, a total of 16,562 ni-Vanuatu workers were in New Zealand (7,100) and Australia (9,462), the most from any Pacific Island country (International Organization for Migration, 2024). However, ni-Vanuatu workers are primarily engaged in the short-term PALM in Australia, with just around 1000 ni-Vanuatu were granted the long-term PALM visas in 2022-2024. The country's dominance in the schemes has been attributed to continued support from Vanuatu government for direct recruitment by approved employers, including licensed labour agents' recruitment, and employer familiarity with ni-Vanuatu workers. Participation has been dominated by men given the physical intensity of work in the agriculture and meat processing sectors, but inclusion of industries such as aged care and accommodation is likely to encourage more women to join.

⁴ The RSE scheme was officially launched in April 2007.

⁵ Other PICs include Kiribati, Samoa, Tuvalu, and Tonga.

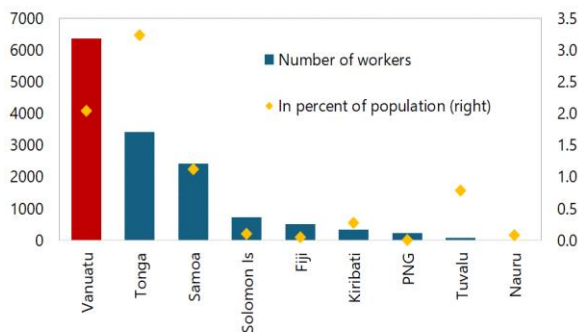
⁶ The MSG comprises Fiji, PNG, Solomon Islands, Vanuatu, and New Caledonia represented by the Kanak and Socialist National Liberation Front. The Skills Movement Scheme came into force in September 2012, facilitating the temporary movement of 400 workers from each of the members to work in another MSG country.

⁷ The PSWPS evolved into the Seasonal Worker Programme (SWP) in 2012 and the Pacific Labor Scheme (PLS) in 2018, which were combined into the Pacific Australia Labor Mobility (PALM) scheme in 2022.

Figure 2. Temporary Labor Migration

Vanuatu has been the largest supplier of seasonal workers among the PICs....

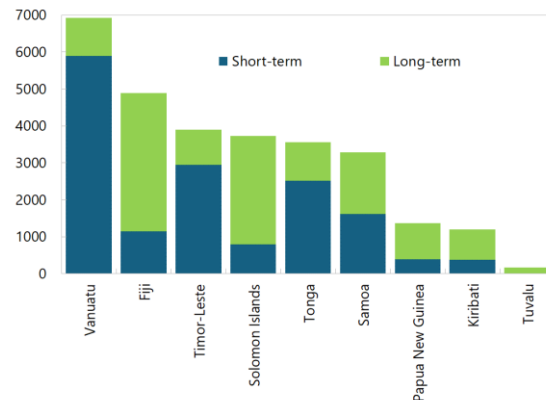
Seasonal Workers from PIC's Under the RSE and SWP Schemes (Average per year for the period: 2012-2024)
(In Numbers or as a Percent of Population)



Sources: International Labour Organization. 2022. Seasonal Worker Schemes in the Pacific Through the Lens of International Human Rights and Labour Standards, Technical Report; World Bank, New Zealand Ministry of Foreign Affairs and Trade, and IMF Staff Estimates

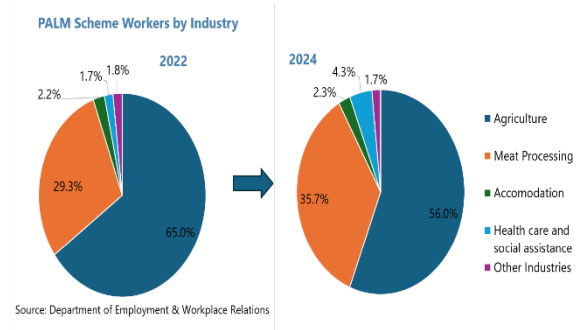
Ni-Vanuatu workers are mostly engaged in the short-term PALM in Australia....

PALM scheme workers
(by PALM stream, average 2022-2024)



Source: Department of Employment & Workplace Relations, PALM Scheme
Note: PALM scheme workers take up short-term (up to 9 months each year for 4 years) and long-term (1 – 4 years) job opportunities in unskilled, low-skilled and semi-skilled positions. Nauru is not included as its totals are small.

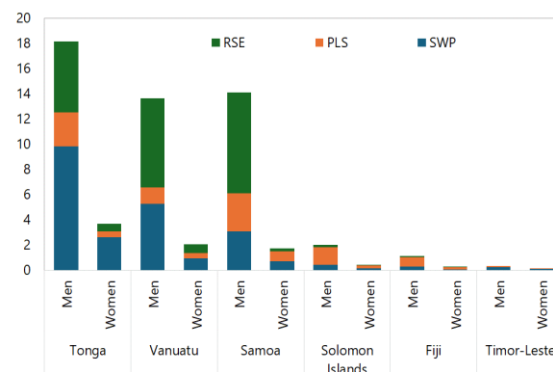
PALM scheme workers are concentrated in the agriculture and meat processing sectors, although health care & social assistance have also increased ...



Source: Department of Employment & Workplace Relations

With participate on largely dominated by men...

Gender participation in seasonal work schemes, mid 2022
(as a percent of working age population, 20-59 years)

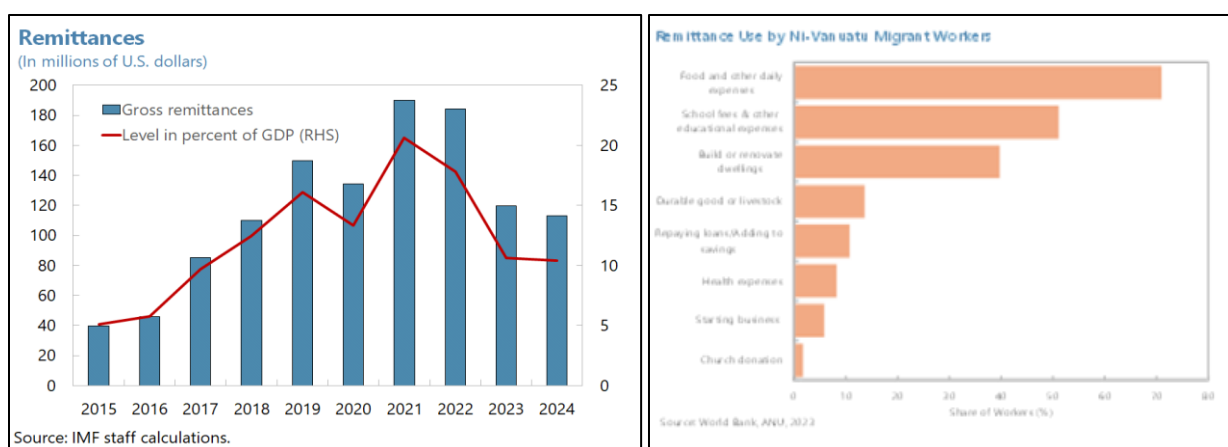


Source: Howes, Curtain, & Sharman (2022), Labour mobility in the Pacific: transformational and/or negligible?

Development Impacts

4. The labor mobility schemes have generated positive development gains for Vanuatu.

Remittances from the labor schemes provide a critical source of foreign exchange and help improve macro-economic stability, especially during economic downturn such as the COVID-19 pandemic and after natural disasters. Migrant workers benefit from gaining employment and higher incomes abroad. These funds are spent on daily expenses such as food, school fees and medical expenses, which help enhance living standards and overall well-being of families in Vanuatu. Workers also use their earnings to build or renovate homes, start small businesses, and repay loans. Beyond the money earned, migrant workers benefit from acquiring new skills, education, training and experience which they can apply upon return to Vanuatu.⁸



5. However, the increasing loss of skilled workers has exacerbated the already small pool of employable and skilled workforce within the domestic labour market. In the private sector, employers report that the most affected sectors are tourism and hospitality, construction and industries requiring technical skills (e.g. refrigeration and engineering), leading to high costs of recruiting and training new staff to fill vacant positions (Vanuatu Chamber of Commerce and Industry, 2023). In the public sector, there are loss of skills and the provision of government services, especially teachers and police officers that have joined the schemes (Vanuatu Government, 2019). The severe skilled labor shortages could impede private sector development, an important catalyst for long-term growth. It could also hamper tourism recovery including the quality of services provided to tourists, delay post-earthquake reconstruction efforts, and broader economic recovery. Additionally, the agriculture sector is being affected by the departure of unskilled workers and farmers for seasonal work abroad, leading to reduced output and export earnings.

⁸ In 2021, Australia introduced a skills development programme which offers seasonal workers access to job trainings (such as driver's license, forklift license) and formal qualifications in aged care and meat processing certificates. Additional skills and knowledge that workers gain include financial and time management, English language proficiency, work ethic and farming techniques.

Policy Implications

6. Concerted efforts are needed to harness the economic benefits from labor migration while carefully managing its costs. The Vanuatu government has taken important steps to improve the regulatory environment and policies around labor mobility. The government first adopted the Seasonal Employment Act in 2007 to manage participation in the RSE. This was followed by the National Labour Mobility Policy in 2019, which was reviewed in 2023 and replaced by the National Labor Mobility Policy and Action Plan (2024-2027).⁹ Aside from this, other important policy areas include:

- **Enhancing investment in education.** Expanding the quantity and quality of education and skills development of ni-Vanuatu workforce, including youths that meet both domestic and international standards should be prioritized. This can be achieved through reviewing the education curriculum, upgrading school infrastructure and online learning access, provision of scholarships, enhancing teacher qualifications, targeted vocational and technical trainings especially in sectors facing skilled labor shortages.
- **Promoting female labor force participation.** Initiatives such as decentralized government services especially in rural areas enabling easier access to relevant information, improved systems for registration and recruitment such as simplifying pre-departure requirements given language and literacy barriers, and promoting childcare support should improve participation of women in the labor force including the seasonal work schemes. The availability of affordable medical insurance, better health services, and safe working environment for women are important factors as well.
- **Strengthening reintegration programs and business environment.** Incentivizing the reintegration of workers returning from labor schemes to invest and contribute to the local economy could spur entrepreneurship. Fostering a conducive business environment to lift private sector development and job creation should help limit migration pressures.¹⁰ These can be achieved through targeted financial coaching and literacy training, improving business registration support and access to financial services, improving the quality of infrastructure and basic services. The current review of restricted and reserved foreign investment activities and regulations is also timely, and should help boost foreign direct investment, economic diversification and job opportunities.¹¹

⁹ The revised Labor Mobility Policy (2024-2027) key areas include improving regulations, data collection, supporting reintegration for returning workers, child centered family and worker welfare.

¹⁰ The lack of employment opportunities and basic services are considered as important push factors for labor mobility in Vanuatu.

¹¹ The Vanuatu Foreign Investment Promotion Agency is leading the review and is expected to be completed by mid-2025.

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Annex VIII. Macro-Fiscal Implications of Ex-ante Adaptation Investment in Vanuatu ¹

This annex draws lessons from the IMF-DIGNAD (Debt, Investment, Growth, and Natural Disasters) model to illustrate vulnerability to natural disasters in Vanuatu and the impact of ex-ante adaptation investment on economic growth and public debt.

1. **The Debt, Investment, Growth, and Natural Disaster (DIGNAD) model is a dynamic general equilibrium (DGE) model developed to assess the effects of public investment on economic growth and debt sustainability.** This model incorporates a range of damages attributable to natural disasters, including permanent capital loss and temporary reductions in productivity. In addition to the public standard infrastructure, the government can invest in the public adaptation infrastructure. Although this option incurs higher costs, it offers enhanced durability and resilience against damage caused by natural disasters. The model is used to evaluate the debt and growth implications of natural disasters under various investment and financing alternatives.
2. **The model is calibrated to the economy of Vanuatu and simulates a hypothetical disaster that mirrors the earthquake damages encountered in 2024.** Based on the latest available data from authorities, official staff reports, and empirical estimates, the steady state of the model characterizes Vanuatu's key economic and fiscal conditions in 2024. Investments in public standard and adaptation infrastructure are set at 3% and 1% of GDP, respectively. The initial levels of public debt and external accounts are aligned with the IMF AIV 2024. The simulation posits that a natural disaster will impact Vanuatu in 2028, affecting both tradable and non-tradable output. This damage primarily results from permanent losses in public infrastructure and private capital.
3. **The macro-fiscal impacts of natural disasters are evaluated under three different investment scenarios.** In all scenarios, the authority receives a grant equivalent to five percent of GDP for ex-ante public investment plans. The authority also aims to restore public infrastructure within four years post-disaster, which is financed through fiscal tools such as public transfers and consumption tax.
 - **Scenario 1 (S1): Public standard investment.** This baseline scenario utilizes the grant to finance a scale-up public investment in standard infrastructure. In addition to the initial three percent public investment in the standard infrastructure, this investment plan involves consecutive additional public investment of two percent of GDP in 2025 and 2026, followed by an additional one percent in 2027.

¹ Prepared by Mohammad Khabbazan (ICD), Shihangyin Zhang (RES), and Yukun Ding (APD).

- **Scenario 2 (S2): Public adaptation investment.** In this scenario, the same amount of grant funding allocated for public investment in S1 is directed towards adaptation infrastructure from 2025 to 2027. Although this scenario incurs higher costs, adaptation infrastructure is capable of significantly mitigating the economic damage associated with natural disasters and facilitating a more robust post-disaster recovery due to its enhanced durability. The comparison between S1 and S2 illustrates the cost-benefit advantages of investing in adaptation infrastructure.
- **Scenario 3 (S3): Increased public adaptation investment.** Built on S2, this scenario incorporates an extra annual one percent of GDP for adaptation infrastructure investment from 2025 to 2027. This supplementary public investment is financed through concessional borrowing. In contrast to S1 and S2, the use of partial debt financing would elevate the level of public debt during the investment phase. Nonetheless, the increased adaptation investment is expected to further mitigate the damage caused by natural disasters and decrease the public financing requirements during the reconstruction phase.

The public investment and financing plans are summarized in Table 1:

| Table 1. Vanuatu: Public Investment and Financing Plans: All Scenarios | | | | | | |
|--|--|--------|--------|--|--------|--------|
| Year | Ex-ante Investment, % of GDP (Standard, Adaptation) | | | Financing Tools, % of GDP (Grants, Concessional Debt) | | |
| | S1 | S2 | S3 | S1 | S2 | S3 |
| 2025 | (2, 0) | (0, 2) | (0, 3) | (2, 0) | (2, 0) | (2, 1) |
| 2026 | (2, 0) | (0, 2) | (0, 3) | (2, 0) | (2, 0) | (2, 1) |
| 2027 | (1, 0) | (0, 1) | (0, 2) | (1, 0) | (1, 0) | (1, 1) |

4. Ex-ante investment in adaptation infrastructure mitigates damage from natural disasters. As demonstrated in Figure 1, simulation results from S1 and S2 reveal that public adaptation investment leads to approximately 0.4 percent less GDP loss compared to standard infrastructure investment when the natural disaster hits the economy in 2028, all other factors being equal. Additional investments in S3 further reduce these impacts of disasters by 0.5 percent of GDP, though this results in higher initial public debt level due to concessional borrowing.

5. Adaptation investment also reduces public financing needs for reconstruction and minimizes disruptions from fiscal policies, supporting a stronger economic recovery in the long term. With adaptation investments, S2 and S3 require less public financing for post-disaster reconstruction, resulting in smaller increases in consumption tax and less disruption in private consumption compared to S1 (Figure 2 and 3). Moreover, the additional adaptation investments in S3 facilitate a substantially stronger post-disaster economic recovery in the long term. As illustrated in Figure 4, compared to S2, Vanuatu's GDP level is projected to be more than 3 percent higher by 2034, which outweighs the initial costs of concessional borrowings and ensures the sustainability of the debt.

6. Moving forward, it is critical for the authority to secure internal and external financing sources and ensure a more disaster-resilient economy. Enhanced investment in adaptation infrastructure can bolster economic resilience against natural disasters; however, the higher initial costs must be managed to sustain public debt levels and economic growth. Consequently, securing external support, such as donor grants, alongside strengthening domestic revenue capacity, is vital for the successful implementation of adaptation investments.

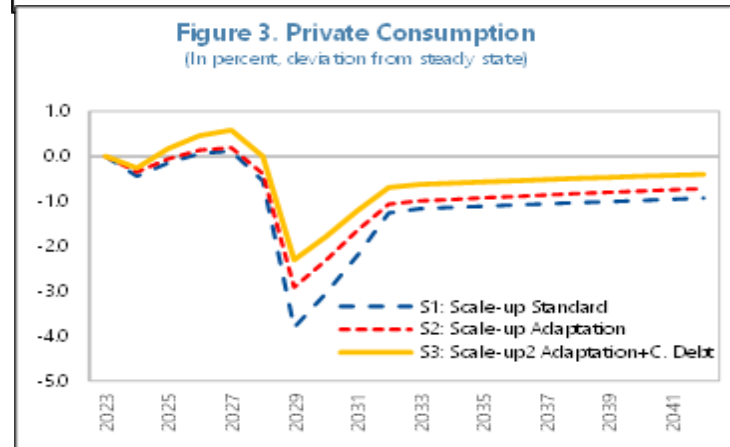
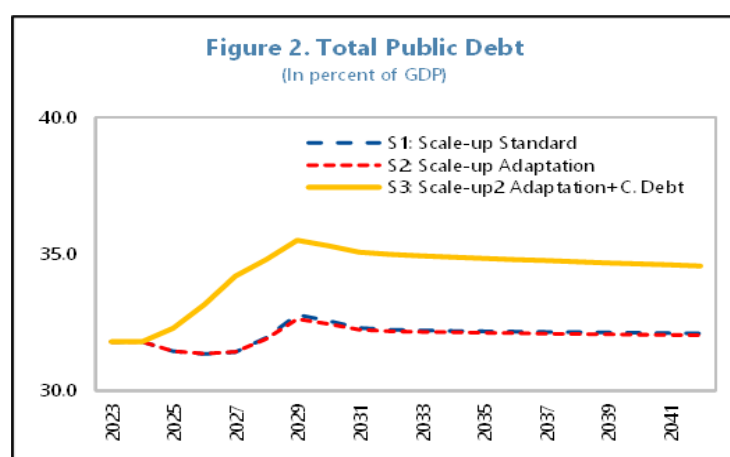
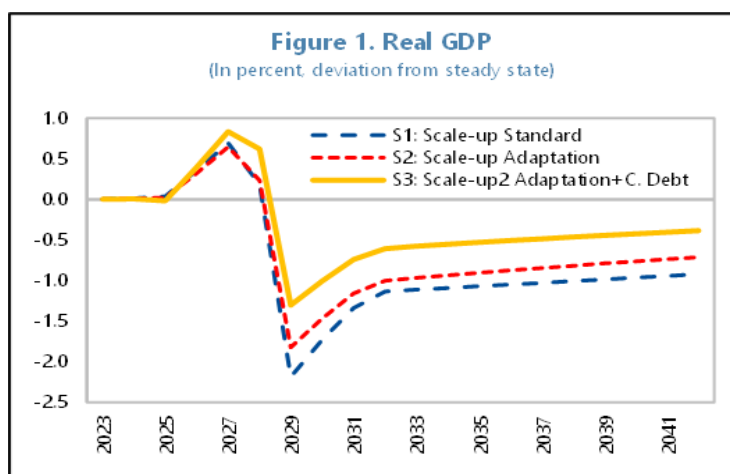
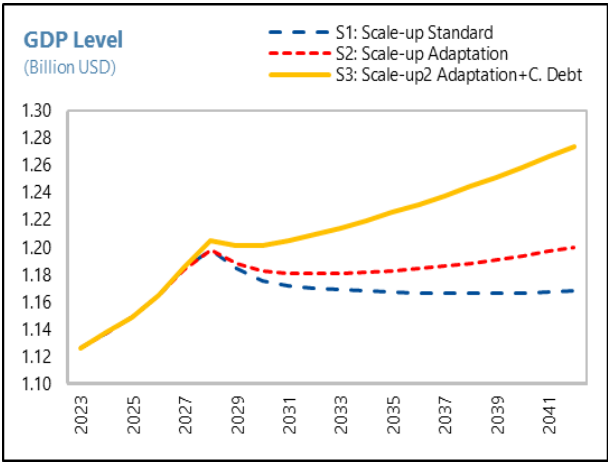


Figure 4. Vanuatu: Long-term Cost-Benefit Analysis of Extra Adaptation Investment in S3



| Year | S3 compared to S2 | |
|------|-------------------|-------------------------------|
| | Extra GDP growth | Difference in Public Debt/GDP |
| 2028 | 0.60% | 2.89% |
| 2030 | 1.60% | 2.86% |
| 2032 | 2.43% | 2.81% |
| 2034 | 3.22% | 2.75% |
| 2036 | 4.00% | 2.69% |

Source: IMF Staff Calculations and DIGNAD model simulation.

Annex IX. Country Engagement Strategy Box

| Policy Issues and Objectives | Domestic Constraints | Staff Engagement Plan |
|---|--|--|
| Fiscal Policy and Public Debt Management | | |
| The Vanuatu authorities are committed to medium-term fiscal consolidation, reigning in government expenditure and undertaking tax policy reforms in the face of a structural decline in ECP revenue, to prevent further deterioration of public debt vulnerabilities. | Tax policy reforms face political resistance; significant government deficits and a shallow domestic debt market have resulted in extensive monetary financing, which hampers the Reserve Bank's liquidity operations. Additionally, acute staffing and capacity constraints have adversely affected public debt management functions. | Staff surveillance and CD will continue to engage with the authorities to enhance the discipline and resilience of the fiscal policy framework. This includes improving the budget process and execution, strengthening revenue mobilization, and further developing the domestic debt market to diversify funding sources, reduce reliance on foreign aid, and build buffers to mitigate the impact of frequent exogenous shocks. |
| Monetary Policy and Central Bank Governance | | |
| RBV is committed reforms that strengthen its governance and independence, including aligning the RBV Act with international best practices. Additionally, the RBV will carefully monitor potential currency misalignments. | Reforms aimed at restricting monetary financing may encounter political resistance due to the lack of alternative domestic financing sources. Furthermore, any reforms to the RBV's FX framework will require a capacity building strategy to support implementation. | Staff surveillance and CD will prioritize providing legal expertise to support the amendments to the RBV Act while monitoring the ongoing implementation of the 2016 Safeguards Assessment. Fund TA has assisted the RBV in reviewing its currency basket and supporting needed reforms. |
| Financial Sector and AML/CFT Framework | | |
| The authorities aim to enhance their bank supervision and resolution frameworks to safeguard financial stability and proactively address financial integrity issues through a more robust AML/CFT regime. | A stress testing reveals vulnerabilities to credit risk and FX liquidity risk, but the bank supervision framework is outdated. Staffing and capacity issues are challenging effective implementation of policy reforms. Additionally, the absence of an effective resolution framework obstructs the resolution of a local bank. | Staff surveillance and CD will focus on strengthening risk-based supervisory frameworks and regulatory capabilities for the financial sector, following the TA roadmap under the FSSR. Additionally, staff will coordinate with other development partners on efforts to enhance the AML/CFT regime in preparation for Vanuatu's next APG Mutual Evaluation in 2026. |
| Structural Reforms and Data Issues | | |
| The authorities aim to enhance oversight of the SOE sector while building the resilience of infrastructure and the macro policy framework in light of recurring natural disasters. Addressing remaining data shortcomings, particularly in national accounts, is essential to avoid hampering surveillance amid heightened uncertainties. | SOE financial reporting remains insufficient, and SOEs' financial performance is generally poor, posing fiscal and governance risks. A lack of expertise and outdated building codes hamper resilience investment. Additionally, the major earthquake in December 2024 has disrupted data collection efforts. | Staff will continue engaging with authorities, leveraging development partner support for reforms to enhance SOE sector transparency and accountability, and addressing resilience-related investments and policies, including through PFM reforms and budget and project planning. Ongoing TA programs in statistics are expected to improve data quality. |

Annex X. Data Issues

Table1. Vanuatu: Data Adequacy Assessment for Surveillance

| Data Adequacy Assessment Rating 1/ | | | | | | | |
|---|--|--------|-------------------------------|----------------------------|-----------------------------------|----------------------------|---------------|
| C | | | | | | | |
| Questionnaire Results 2/ | | | | | | | |
| Assessment | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
| | B | B | C | C | B | C | C |
| Detailed Questionnaire Results | | | | | | | |
| Data Quality Characteristics | | | | | | | |
| Coverage | B | B | C | B | B | | |
| Granularity 3/ | B | | B | C | B | | |
| | | | B | | B | | |
| Consistency | | | C | C | | C | |
| Frequency and Timeliness | D | B | C | C | A | | |
| <p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p> | | | | | | | |
| A | The data provided to the Fund is adequate for surveillance. | | | | | | |
| B | The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. | | | | | | |
| C | The data provided to the Fund has some shortcomings that somewhat hamper surveillance. | | | | | | |
| D | The data provided to the Fund has serious shortcomings that significantly hamper surveillance. | | | | | | |
| <p>Rationale for staff assessment. National accounts and balance of payments are typically delayed at most by 1 to 3 years. For example, the country's most recent official GDP data—compiled and published by the Vanuatu Bureau of Statistics—dates to 2022 and based on an outdated 2006 base year. Efforts are ongoing to improve the methodology and reporting of GDP data. The balance of payments data is also subject to significant periodic revisions of the current account, and the large net errors and omission—although it is modestly estimated at 1.9 percent of GDP in 2024. National accounts data to calculate GDP from the production side is solid but official estimates from the expenditure side could be improved as there are large discrepancies. Prices data is quarterly, which is broadly adequate for surveillance, but the data shows some consistency issues, more specifically with the CPI weights. The published CPI data still uses the old base year of 2000Q1. The authorities are transitioning to a new base year of 2022Q1, but have not yet published this data. While the fiscal data is published at a higher frequency, certain elements such as ECP revenues, donor grants, SOE data, bilateral debt, etc. are not comprehensively and consistently reported. A variety of Government data systems were compromised in 2022 leading to difficulties in reconstructing sources which impacted a range of statistics, such as goods exports and imports, and by countries of consignment. Moreover, the earthquake last year also disrupted the provision of data, especially price collection in Port Vila as businesses were closed temporarily or relocated.</p> | | | | | | | |
| <p>Changes since the last Article IV consultation. Authorities are also working to complete the GDP methodology change from a fixed base year to chain linking, integration of updated economic classification, and target to publish GDP official estimates for 2023 and 2024 by this year. Improvements to GDP expenditure estimates by incorporating better deflators and administrative data sources (trade, VAT and customs) including the coherence across the GDP approaches (production and expenditure) are ongoing. A Labor Force Survey is also being undertaken to strengthen labor statistics.</p> | | | | | | | |
| <p>Corrective actions and capacity development priorities. Ongoing TA programs by STA/ICD/PFTAC are already addressing some of the issues mentioned above. For example, PFTAC planned TA for FY2025–26 will cover areas on strengthening the compilation and dissemination of real sector (updating of GDP) and fiscal statistics. On external sector statistics (ESS), authorities face challenges in implementing the 2023 TA recommendations, with persistent gaps in ESS, measurement errors in current account; and IIP are likely to close only over the medium term. Prioritizing additional TA (last STA mission was in 2023) is crucial to help address the data quality issues in external sector statistics. Vanuatu Bureau of Statistics (VBoS) is working to strengthen the national accounts framework by integrating ADB-developed Supply Use Tables into the framework, while planning on developing annual Input-Output Tables and a Social Accounting Matrix. Improving price statistics such as producing monthly CPI, Producer Price Indices, Import Price Indices and Export Price Indices is another focus area for VBoS. Staffing, systems and funding generally for the statistics are a key issue – similar constraints across the PIC region. Some data issues may be remedied using memoranda of understanding and service level agreements between the primary data responsible and the source entities (this is likely more applicable to the DoFT/MEMF and the GFS e.g. sourcing SOE data, and RBV). A security breach of the government systems in 2022 affected data especially merchandise trade data – adequate resourcing of cybersecurity across government would help avoid such disruptions.</p> | | | | | | | |
| <p>Use of data and/or estimates different from official statistics in the Article IV consultation. The country team has needed to replace official data with its own estimates at places to ensure consistency across sectors and accounts (e.g. GDP for 2023 and 2024). Also, for certain sectors (e.g. donor grant information and credit from MDBs), information is sometimes obtained from alternate sources to cross-check with authorities data and sometimes is used to replace official information.</p> | | | | | | | |
| <p>Other data gaps. Multiple data series relating to the population census (such as timely statistics on population developments, reflecting fertility, mortality and migration trends), households (e.g. data on remittance receiving households and allocation of those funds), corporates, infrastructure projects, SOEs (such as updated audited financial statements), labor related statistics including migration would be helpful for a more comprehensive assessment.</p> | | | | | | | |

Table 2. Vanuatu: Data Standards Initiatives

Vanuatu participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since April 2019.

Table 3. Vanuatu: Table of Common Indicators Required for Surveillance

As of September 2025

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|--|----------------------------|---------------|--------------------------------|-------------------------------------|---|----------------------|------------------------------------|----------------------|
| | Date of Latest Observation | Date Received | Frequency of Data ⁶ | Frequency of Reporting ⁶ | Expected Frequency ^{6,7} | Vanuatu ⁸ | Expected Timeliness ^{6,7} | Vanuatu ⁸ |
| Exchange Rates | Sep-25 | Sep-25 | M | M | D | M | ... | 1M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | Jun-25 | Jun-25 | M | M | M | M | 1M | 8W |
| Reserve/Base Money | Jun-25 | Jun-25 | M | M | M | M | 2M | 3M |
| Broad Money | Jun-25 | Jun-25 | M | M | M | M | 1Q | 3M |
| Central Bank Balance Sheet | Jun-25 | Jun-25 | M | M | M | M | 2M | 3M |
| Consolidated Balance Sheet of the Banking System | Jun-25 | Jun-25 | M | M | M | M | 1Q | 3M |
| Interest Rates ² | Jun-25 | Jun-25 | M | M | M | M | ... | 1M |
| Consumer Price Index | Jun-25 | Aug-25 | Q | Q | M | Q | 2M | 6W |
| Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴ | NA | NA | NA | NA | A | ... | 3Q | ... |
| Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government | Jun-25 | Aug-25 | M | Q | Q | Q | 1Q | 2M |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | Dec-24 | Apr-25 | Q | Q | Q | A | 2Q | 1M |
| External Current Account Balance | Dec-24 | May-25 | Q | Q | Q | ... | 1Q | ... |
| Exports and Imports of Goods and Services | Dec-24 | May-25 | Q | Q | M | M | 12W | 1M |
| GDP/GNP | 2022 | Nov-24 | A | A | Q | A | 1Q | 12M |
| Gross External Debt | Dec-24 | Apr-25 | Q | Q | Q | ... | 2Q | ... |
| International Investment Position | Dec-24 | May-25 | Q | Q | A | ... | 3Q | ... |

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



VANUATU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS¹

September 8, 2025

Approved By
**Maria Gonzalez (IMF),
Jacques Alain Miniane
(IMF) and Manuela
Francisco (IDA)**

Prepared by the staff of the International Monetary Fund and the International Development Association

| | |
|--|---|
| Risk of external debt distress: | Moderate |
| Overall risk of debt distress: | High |
| Granularity in the risk rating: | Sustainable; Limited space to absorb shocks |
| Application of judgement: | No |

While Vanuatu is recovering following a devastating earthquake in December 2024 and the restructuring of the national carrier Air Vanuatu, significant uncertainty continues to cloud the outlook. Both shocks have affected tourism and growth prospects, with likely protracted fiscal implications, accompanied by higher public debt. In addition to lower tourism-related revenue, staff envisages a mixed picture on capital spending and other expenditures to support the restructured Air Vanuatu's continued operations. Under a baseline set of forecasts, the Debt Sustainability Analysis (DSA) concludes that the overall risk of debt distress remains high, similar to the June 2024 DSA, and the PV of public-debt-to-GDP ratio breaches its indicative benchmark from 2032 onwards, a year earlier than in the previous DSA, and remains marginally over the threshold.

The risk of external debt distress for Vanuatu has eased to moderate (from high in the previous DSA), as the creditors' agreement for the national airline and the gradual recovery in tourism has helped avert extreme outcomes.² The external debt indicators do not breach the threshold levels in the baseline and the external debt profile has shifted lower on reduced external borrowing in the near-term.

¹ The Composite Indicator (CI) for Vanuatu is estimated at 3.018, based on the April 2025 WEO and 2024 World Bank CPIA; given the CI score in this and previous vintages the debt carrying capacity for Vanuatu is assessed as medium.

² The near-term outlook is subject to significant uncertainties regarding the recovery in tourism following the devastating earthquake in December 2024 as well as Air Vanuatu's operational challenges. Details on the assumptions around tourism are listed in Annex 1 (Near-Term Growth Assumptions) of the Staff Report.

In an alternative scenario with zero revenues from the Economic Citizenship Program (ECP), the PV of public debt-to-GDP breaches the benchmark level from 2027 onwards, while the PV of external debt-to-GDP breaches the threshold from 2028 onwards. External debt-to-exports ratio breaches the threshold from 2030 onwards while external debt service-to-exports ratio breaches the threshold in 2034.

Given the improvements in the external debt profile and the breach in the benchmark public debt indicator being marginal, Vanuatu's public debt is deemed sustainable, unchanged from the previous DSA. However, uncertainty around the future outcomes for Air Vanuatu remain and the fiscal outlook remains precarious reflecting persistently large fiscal deficits over the medium term. Thus, there remains an urgent need to deploy a fiscal consolidation strategy sustained over the medium term, rebuild fiscal buffers and enhance resilience against future shocks to ensure fiscal sustainability. Accelerating the pace of structural reforms, with respect to public financial management and the governance of government-business enterprises, as well as revenue mobilization (including a wider tax base and possibly income tax) and expenditure rationalization should remain a priority to ensure positive fiscal outcomes.

PUBLIC DEBT COVERAGE

1. The coverage of public sector debt for this debt sustainability analysis is unchanged from the June 2024 DSA. The debt stock covers the central government, central government guaranteed debt and central bank debt borrowed on behalf of the government. Because of data limitations, non-guaranteed SOE debt and private external debt are not included in the analysis.³ However, a contingent liability scenario for the SOEs is considered (see below). The DSA uses a residency-based definition of external debt.

| Coverage of Public Sector Debt | | |
|--------------------------------|--|---------------------|
| | Subsectors of the public sector | Sub-sectors covered |
| 1 | Central government | X |
| 2 | State and local government | |
| 3 | Other elements in the general government | |
| 4 | o/w: Social security fund | |
| 5 | o/w: Extra budgetary funds (EBFs) | |
| 6 | Guarantees (to other entities in the public and private sector, including to SOEs) | X |
| 7 | Central bank (borrowed on behalf of the government) | X |
| 8 | Non-guaranteed SOE debt | |

2. The DSA includes a combined contingent liabilities stress test, similar to that in the June 2024 DSA. Liabilities pertaining to the largest SOE, Air Vanuatu, amount to around 1.5 percent of GDP and are treated as part of the public debt in the DSA given that the airline is now wholly-owned by the government. The total debt of other non-financial commercial SOEs, where the government is a majority stakeholder, amounts to around VT2.8 billion (equivalent to around 2 percent of GDP).⁴ Thus, the magnitude of the shock of SOE debt has been set to the default value of 2.0 percent of GDP. Contingent liabilities from financial markets are set at the default value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in a low-income country.

BACKGROUND ON DEBT

3. Public and publicly guaranteed (PPG) debt is estimated at approximately VT60 billion (43.4 percent of GDP) at end-2024. This compares to VT54 billion in 2023, while the composition

³ Given the limited capacity of Vanuatu's state and local governments, other SOEs (outside Air Vanuatu), and the private sector to borrow externally, other data deficiencies are not expected to affect the external assessment. PFTAC continues to provide technical assistance to help the authorities expand the coverage of government financial statistics (GFS) from budgetary central government to general government and SOEs.

⁴ Total debt of non-financial commercial SOEs is estimated at around 2.0 percent of GDP based on the official report on off-budget entities (2021). There are 11 commercial entities which are majority-owned by the government and an additional 8 entities that are minority-owned. The total debt of non-financial SOEs captured in the contingent liabilities test include 4 of the 11 commercial entities that are majority-owned by the government and have reported financial statements as of 2021.

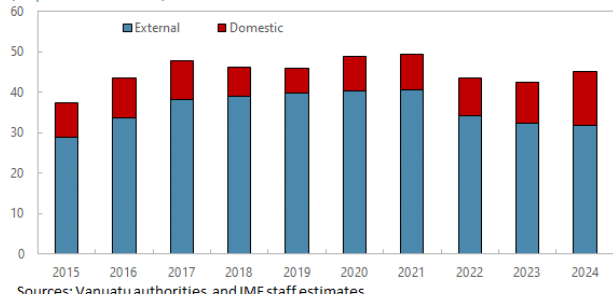
is broadly unchanged from figures reported in the June 2024 DSA. External debt comprises around 70 percent of total public debt (Text Table 1), with bilateral lender debt making up 57 percent of external debt and multilateral creditors holding the remaining (43 percent of external debt). The Export-Import Bank of China remains the largest single creditor (28 percent of total debt).

Text Table 1. Stock of Public Debt at end-2024

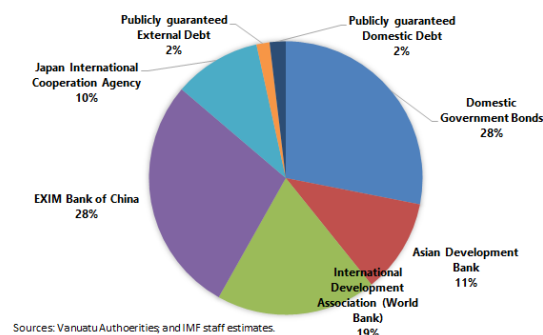
| | In Millions of Vatu | In Millions of US dollars | As % of total debt |
|--|------------------------|------------------------------|-----------------------|
| Total Stock of Debt | 59226 | 501.4 | 100.0 |
| External Debt | 41468 | 351.1 | 70.0 |
| Multilateral | 17853 | 151.2 | 30.1 |
| Asian Development Bank | 6596 | 55.8 | 11.1 |
| International Development Association (World Bank) | 11208 | 94.9 | 18.9 |
| Multilateral Government Guarantees | 49 | 0.4 | 0.1 |
| Bilateral | 23615 | 199.9 | 39.9 |
| EXIM Bank of China | 16630 | 140.8 | 28.1 |
| Japan International Cooperation Agency | 6116 | 51.8 | 10.3 |
| Bilateral Government Guarantees | 869 | 7.4 | 1.5 |
| Domestic Debt | 17758 | 150.4 | 30.0 |
| Domestic Government Bonds | 16638 | 140.9 | 28.1 |
| Domestic Government Guarantees | 1120 | 9.5 | 1.9 |

Among the multilateral lenders, World Bank (19 percent) and ADB (11 percent) are the largest creditors to Vanuatu. Domestic debt has risen sharply in recent years, to around 30 percent of total debt, and is primarily composed of domestic bonds held by the central bank, domestic banks and the Vanuatu National Provident Fund (VNPF), the public pension fund. The Government of Vanuatu's guarantees stood at around VT1.9 billion.

Total Public and Publicly Guaranteed Debt
(In percent of GDP)



Composition of PPG Debt, 2024



4. The agreement between Air Vanuatu's creditors in August 2024 averted extreme outcomes, but the operational readiness and future of the national carrier remain uncertain.

Following the creditor agreement, the Supreme Court ordered the liquidation to be cancelled in October 2024 and that shares in the airline be transferred to a new government-owned special

purpose vehicle (AV3 Limited).⁵ Control of the company was subsequently handed back to the directors and management team of the original airline. AV3 has partially resumed domestic operations, though demand from overseas tourists remains subdued due to suspension of its IATA certification⁶. The airline is entirely dependent on government guarantees to remain operational and might likely require further subsidies to return to full operational capacity⁷. Meanwhile, international airlines have significantly increased flight schedules to major cities like Port Vila and Santo, fully restoring international connectivity.

5. The restructuring of Air Vanuatu in 2024 has important implications on the assumptions on external debt and contingent liabilities. For the June 2024 DSA—prior to the restructuring being completed— staff assumed contingent liabilities of the airline to public sector debt of around USD49 mn or 4 percent of GDP to be realized in 2024,⁸ and an additional 2 percent of GDP (approximately) to be treated as contingent liabilities in future years. Therefore, a portion of Air Vanuatu’s liabilities, amounting to 4 percent of GDP, was assumed to be included in public debt stock for 2024 and financed using external debt. However, following the agreement with Air Vanuatu’s creditors later that year, most of the liabilities of the airline (to the tune of approximately 5 percent of GDP) were written off or paid back to creditors at a steep haircut while the remaining liabilities were moved to AV3 Ltd.⁹ Therefore, external debt for 2024 has been revised to 31.7 percent of GDP for 2024, down from 36.3 percent of GDP estimated in the June 2024 DSA. The liabilities transferred to AV3 (to the tune of 1.5 percent of GDP) are now being treated as public debt as explained earlier.

6. Preliminary estimates indicate external debt in 2024 has marginally declined from the previous year, on the back of amortization and reduced drawdowns on external loans. Data from the authorities for 2024 indicate that external debt owed to bilateral creditors has declined by USD 246,000 in 2024, to USD 23.6 million, while debt owed to multilateral lenders is estimated to have remained relatively unchanged, most likely due to slower-than-expected drawdown on loans

⁵ Under the deed of compromise, AV3 agreed to pay USD 3.3 million into a fund to pay back creditors in three tranches (USD 1.1 million each). All three tranches have since been paid out, though there are some minor claims still outstanding.

⁶ The airline is operating three aircraft (one ATR, two twin otters) on domestic routes, but is currently servicing only 14 ports compared to 23 ports prior to the liquidation. The airline’s fleet have had recurring maintenance issues requiring them to be grounded periodically. The airline’s IATA certification was suspended in the wake of unpaid claims to IATA agents during the liquidation process; the airline is hopeful of repaying these claims and requesting the suspension be released by Q4 2025. Once the IATA certification is restored, the airline will be able to resume offering tickets on its domestic routes to international partner airlines and thereby boost ticket sales.

⁷ The restructured airline only has domestic operations and relies on government guarantees to secure fuel, machinery, maintenance and insurance. An ADB study ([ADB 2009](#)) estimated the need for an operating subsidy for the airline, though this analysis would need to be updated for current market conditions.

⁸ Staff estimate that this would include payments to secured and unsecured creditors and non-financier loans to Air Vanuatu.

⁹ According to the Supreme Court Order, around VUT 2 billion of Air Vanuatu’s debt was assumed by the government (and subsequently moved to the new entity), while another VUT 13.7 billion in liabilities were written down or paid out to creditors at a steep discount of 5 cents/dollar.

due to delayed project execution and the “high risk” of external debt distress rating on the June 2024 DSA.

7. Domestic debt, however, sharply rose in 2024; this, and the government’s issuance forecast in 2025-26 raises concerns over the sustainability of deficit financing going forward.

Domestic debt outstanding rose around 3 percentage points of GDP, to 13 percent of GDP in 2024, the largest annual increase in at least a decade. The government’s domestic debt is primarily held by four domestic entities, namely, the Reserve Bank of Vanuatu (RBV; that is, the central bank), the public provident fund VNPF, the state-owned National Bank of Vanuatu and PNG-based BSP bank. As of 2024, VNPF and RBV held a combined 70 percent of domestic government debt, while NBV (23 percent) and BSP (5 percent) held most of the remaining debt. The government’s issuance forecasts for 2025 suggest that around VT3-4 billion in government bonds could potentially come to the market, bringing the outstanding domestic debt to around VT19 billion (17 percent of GDP). Moreover, domestic debt is projected to rise from 13 percent of GDP in 2024 to 23 percent of GDP by 2030 and 25 percent of GDP in 2035 (Figure 6), to finance persistent fiscal deficits. Given the relatively shallow depth of the domestic debt market, absorbing the bulk of this issuance could prove difficult for the domestic creditors in the medium-term and may test the boundaries of borrowing from the RBV. This would add to the growing reliance on monetary financing. Moreover, given that domestic financing is more expensive than concessional external debt¹⁰, the debt service burden from domestic debt is expected to weigh down on revenues in the medium-term. These issues imply an urgent need to deepen domestic government bond markets and diversify revenue sources to maintain fiscal and debt sustainability into the medium-term.

8. The government’s medium-term debt management strategy (MTDS) for 2025-27, has been updated in light of the December 2024 earthquake and the Air Vanuatu restructuring.¹¹

The updated MTDS incorporates the macroassumptions on lower revenues as well as the change in June 2024 DSA risk classification that impacts financing options. These changes necessitate a revised debt management strategy that encourages the country to diversify funding sources, with a focus on developing the domestic government bond market. The MTDS postulates three alternate borrowing strategies, to assess the cost/risk profiles as well as evaluating the benefits of introducing new instruments. Despite potentially higher borrowing costs and associated risks, the MTDS concludes that fostering a domestic debt market is crucial for Vanuatu, especially given the likelihood of declining concessional financing in the medium-term¹². To secure funding at reasonable costs, the government must improve the issuance process, including providing timely information and clear medium-term objectives, and proactively engage with investors. Regular meetings with banks and the publication of the annual borrowing plan will support this objective

¹⁰ Longer-term domestic currency bonds are estimated to have nominal yields between 7-9 percent.

¹¹ Vanuatu is required to prepare and implement Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy (SDFP) to address key debt vulnerabilities in the country. Since FY21, Vanuatu has implemented PPAs in areas of debt management and debt transparency. Over the past four years, to mitigate risks from non-concessional sources of financing, Vanuatu has also adhered to a zero-Non-Concessional Borrowing Ceiling under the SDFP. With regards to debt transparency, Vanuatu has implemented reforms to improve the timeliness and coverage of debt data through publication of quarterly debt reports.

¹² The MTDS assumes that with a “high risk” rating on external debt, creditors will be less reluctant to lend on concessional terms.

and boost investor confidence. The Fund has been providing technical assistance to the authorities on updating the MTDS, reviewing institutional arrangements as well as in developing local currency bond markets and investor relations.

BACKGROUND ON MACROECONOMIC FORECASTS

Text Table 2. Donor Support post Dec-2024 Earthquake

| Donor / facility | Amount (US \$mn) | Instrument & purpose | Effective date |
|-----------------------|---------------------|---|--|
| World Bank | 42 | Crisis Preparedness & Response Toolkit: US\$12 million in Rapid Response Option grant financing on 24 December 2024 to pay for life-saving relief, emergency logistics and debris clearance. Recovery & Resilience grant: US\$30 million; \$20 mn of this for rebuilding damaged schools, hospitals and urban roads; \$10 mn Contingent Emergency Response Component (CERC) can be tapped for any future disaster or health emergency. | Dec 24, 2024 (US\$12 m) Jan 16, 2025 (US\$30 m) |
| ADB | 5 | Asia-Pacific Disaster Response Fund grant covering government spending on temporary shelters, water-purification units and emergency health services. | Dec 24, 2024 |
| UN CERF | 1 | Central Emergency Response Fund allocated US\$1 million, channeled through UNICEF, UNFPA and WHO, to restore safe water, distribute emergency shelter kits and deploy mobile health clinics. | Dec 19, 2024 |
| Australia | 4.5 | AUD 7 million in humanitarian aid pledged to support earthquake recovery efforts. Disaster Assistance Response Team (DART) was deployed to assist search and rescue operations and conduct damage assessments. Australian Medical Assistance Team (AUSMAT) deployed for medical assistance at Vila Central Hospital. | Dec 18, 2024 |
| New Zealand | 2.3 | Emergency grant delivered urgent humanitarian aid—shelter kits, medical and water-purification support, and search-and-rescue teams—to meet immediate needs after the earthquake. | Dec 18, 2024 |
| IFRC Emergency Appeal | 5.2 | International Federation's multi-donor appeal funds for shelter, livelihoods recovery and disaster-risk-reduction training; donors have so far covered just over one-quarter of the target. | Dec 20, 2024 |

9. Vanuatu was hit by a 7.3-magnitude earthquake in December 2024. The earthquake damaged the business district and the cruise terminal in the capital, following three severe cyclones in 2023 and the voluntary liquidation of the national carrier Air Vanuatu in May 2024, compounding the strains and clouding the outlook. The earthquake caused widespread infrastructure damage, disrupted domestic supply chains, and caused the temporary closure of Port Vila's Central Business District (CBD). Many businesses were able to relocate to suburban areas, helping to cushion economic disruptions. Total losses are estimated at US\$197 million—about 17 percent of Vanuatu's

2023 GDP,¹³ which is expected to be mitigated via higher external grants and reconstruction spending (Text Table 2).

10. Growth is projected to have slowed to a modest 0.9 percent y/y in 2024, weighed down by travel disruptions, weaker agriculture, and delayed public investment. Growth in the services sector slowed to 0.5 percent y/y (down from 2.0 percent y/y in 2023), largely owing to Air Vanuatu's voluntary liquidation and related tourism disruptions. Agricultural output fell as many farmers joined seasonal overseas programs, reducing on-farm labor availability. The slower-than-anticipated rollout of the 2024 capital budget delayed numerous construction projects, dampening growth in the industry and construction sectors.

11. Inflation continued to ease in 2024. Inflation peaked at 11.3 percent y/y in 2023, driven by food-price spikes after cyclones disrupted agriculture. As those shocks eased, average annual inflation fell to 1.2 percent y/y in 2024, aided by global disinflation and lower commodity prices. The mild appreciation of the vatu against the Australian and New Zealand dollars helped lower import costs and supported disinflation in 2024.

12. The macroeconomic assumptions for the DSA are as follows (Text Table 3):

| Text Table 3. DSA Key Macroeconomic and Fiscal Assumptions (Percent of GDP) | | | | | | | | | | | | |
|--|--------------|------|---------|---------|-------------|--------|---------|---------|-----------------------|------|---------|---------|
| | Previous DSA | | | | Current DSA | | | | (current vs previous) | | | |
| | 2025 | 2026 | 2025-30 | 2025-35 | 2025 | 2026 | 2025-30 | 2025-35 | 2025 | 2026 | 2025-30 | 2025-35 |
| Real GDP growth, percent | 1.5 | 2.1 | 2.0 | 2.0 | 1.7 | 2.8 | 2.4 | 2.3 | 0.1 | 0.7 | 0.3 | 0.3 |
| Inflation (GDP deflator), percent | 2.3 | 2.0 | 2.1 | 2.0 | 2.2 | 2.3 | 2.2 | 2.2 | 0.0 | 0.2 | 0.2 | 0.2 |
| Nominal GDP (USD mn) | 1214 | 1265 | 1350.8 | 1502.6 | 1118.7 | 1176.3 | 1264 | 1426 | -96 | -89 | -87 | -77 |
| (Percent of GDP) | | | | | | | | | | | | |
| Revenue and grants | 31.9 | 30.4 | 30.1 | 29.8 | 33.0 | 31.9 | 31.7 | 31.3 | 1.1 | 1.4 | 1.6 | 1.5 |
| Primary expenditure | 36.1 | 33.4 | 32.6 | 31.9 | 36.9 | 35.2 | 34.2 | 33.4 | 0.8 | 1.8 | 1.7 | 1.6 |
| Primary balance | -4.2 | -3.0 | -2.5 | -2.1 | -3.9 | -3.3 | -2.6 | -2.1 | 0.3 | -0.3 | -0.1 | -0.1 |
| Exports of goods and services | 18.5 | 23.9 | 27.7 | 31.0 | 21.2 | 22.6 | 24.0 | 24.7 | 2.7 | -1.3 | -3.7 | -6.3 |
| Imports of goods and services | 50.6 | 51.7 | 54.3 | 56.1 | 56.4 | 55.7 | 53.1 | 50.6 | 5.8 | 3.9 | -1.2 | -5.5 |
| Current account balance | -6.5 | -4.6 | -4.6 | -4.4 | -11.6 | -11.6 | -8.4 | -6.1 | -5.1 | -7.0 | -3.8 | -1.7 |

- **Real GDP growth:** Real GDP is expected to moderately recover in 2025, by 1.7 percent y/y, driven by a rebound in air-arrival tourism—bolstered by an increase in international flights—alongside stronger agricultural output and increased construction activity. However, the speed of post-earthquake recovery is constrained by limited domestic connectivity and hotel capacity, a sharp decline in cruise ship tourism, and weaker external demand amid heightened global uncertainties. Growth is expected to pick up to 2.8 percent in 2026 as the cruise port reopens and reconstruction efforts ramp up¹⁴. Growth over 2025-30 is projected to average 2.4 percent,

¹³ Damage estimates are from the World Bank's Global Rapid Post-Disaster Damage Estimation (GRADE), published in January 2025. The impact was largely confined to Port Vila but with spillovers felt across the islands.

¹⁴ See Annex I and II of Staff report for further details on growth projections linked to tourism and the earthquake.

0.3 percentage points higher than in the June 2024 DSA. The growth projections in 2025–2035 (Table) have been revised to an average of 2.3 percent (from 2.0 earlier).

- **Inflation:** Inflation is projected to edge higher to 2.2 percent y/y in 2025, driven by supply chain disruptions and higher rental prices following the earthquake, and stabilize around 2.2 percent from 2026 onward absent major supply shocks. Average inflation over 2025–2035 is predicted to be 2.2 percent, marginally higher than the previous projection of 2.0.
- The **current account deficit** is projected to remain wide around 11.6 percent of GDP in 2025 and 2026, as a gradual tourism recovery and the expected increase in grants and remittances partly offset higher construction-related imports, before gradually narrowing over the medium-term as the trade balance improves. Foreign reserves are projected to average around 8 months of import cover into the medium-term (assuming no major external shocks)—supported by grants, remittances and a recovery of tourism receipts—but are on a downward trajectory. The average deficit is estimated to be around 6.0 percent of GDP over 2025–35 compared to a deficit of 4.4 percent over the same period in the previous DSA.
- **Primary Balance:** Revenue forecasts are higher than the assumptions in the previous DSA, reflecting the increased grants expected in the wake of the earthquake. Expenditures are also expected to be higher than the previous DSA, reflecting the increased post-earthquake support for rebuilding and for the vulnerable segments of the population. The net effect of these changes implies the primary deficit is estimated to be tighter than the previous DSA, by around 0.3 percentage points in 2025. The primary deficit is expected to average 2.1 percent of GDP over 2025–2035, similar to that projected in the previous DSA.
- **External borrowing and grants:** External borrowing is estimated to fall in the near-term, as development partners are shifting away from loans in the wake of the “high risk” rating for external debt distress in the June 2024 DSA. Grant support from donors is expected to increase in the wake of the earthquake. Moreover, the external debt profile has also benefited following the creditor agreement reached for Air Vanuatu (see details earlier in the document). Grants from development partners are estimated to remain strong at around 9.3 percent of GDP in 2025 (compared to 10.4 percent in 2024), reflecting existing commitments, before easing to around 7.0 percent in the medium-term, which is in line with the historical average level.

13. The effects of natural disasters and climate change over the longer term are incorporated into the baseline scenario. The scenario assumed there are no major costly disasters in 2025–29 (beyond those already materialized), to simplify the policy discussion of the near-term outlook—a standard practice in DSAs for other small states with a similar risk profile. After 2029 the baseline macroframework incorporates the average long-term effects of natural disasters and climate change. Based on empirical evidence on the impact of natural disasters, real GDP growth is lowered by 0.5 percentage points annually, the current account balance is lowered by 1.3 percent of GDP and the fiscal deficit is increased by 0.35 percent of GDP relative to disaster-free projections.

14. Realism tools do not flag substantial risks around the forecast (Figure 4). The projected total three-year fiscal adjustment (between 2024 and 2027) is a 1.0 percent increase in the primary

deficit, on the back of the government's enhanced support for the rebuilding efforts following the earthquake, continued support for the stricken national airline, and the increased capex plans envisaged in the near-term. The real growth forecast for 2025 is in line with the projected growth path using a fiscal multiplier of 0.2. A stronger recovery is estimated in 2026 compared to the projected growth path using the various fiscal multipliers. This trajectory reflects the idiosyncratic nature of the earthquake impact and the lagged growth effects from the government's rebuilding efforts. The realism of projections for public and private investment rates and their contribution to real GDP cannot be assessed due to data availability constraints.

15. Similar to the previous DSA, the fiscal balance continues to be the main driver for public sector debt. The current account deficit is expected to remain wide in the near-term, due to the impact of the earthquake and lingering effects of the restructuring of Air Vanuatu, but subsequently normalize in the medium-term as tourism recovers. Relatedly, significant retroactive changes to historical BoP data for Vanuatu have created large residuals to historical debt-creating flows (Figure 3), though ongoing technical assistance in this area is expected to improve the data quality issues. Meanwhile, the primary deficit is expected to remain high in the near-term—on the back of enhanced support for rebuilding following the earthquake and continued support for the stricken national carrier—driving public debt higher in the medium term.

COUNTRY CLASSIFICATION

16. Vanuatu's debt carrying capacity is assessed as medium, as in the previous DSA. The debt carrying capacity determines the applicable thresholds for the PPG external and total public debt sustainability indicators used in the assessment. The composite index (CI) is 3.018 based on April 2025 World Economic Outlook (WEO) data and the 2024 World Bank Country Policy and Institutional Assessment (CPIA). The composite index (CI) captures: (i) information from the 2024 World Bank Country Policy and Institutional Assessment (CPIA) score; (ii) external conditions as captured by world economic growth; and (iii) country-specific factors including import coverage of reserves. Vanuatu's CI score of 3.018 is marginally higher than in the previous DSA vintage (which was based on October 2024 WEO data). There is no change to Vanuatu's classification from the June 2024 DSA.

| Debt Carrying Capacity and Thresholds | | | |
|---------------------------------------|---|--|--|
| Country | Vanuatu | | |
| Country Code | 846 | | |
| Debt Carrying Capacity | Medium | | |
| Final | Classification based on current vintage | Classification based on the previous vintage | Classification based on the two previous vintage |
| Medium | Medium 3.018 | Medium 3.016 | Medium 3.045 |

| Applicable thresholds | |
|---------------------------------|-----|
| | |
| APPLICABLE | |
| EXTERNAL debt burden thresholds | |
| PV of debt in % of Exports | 180 |
| GDP | 40 |
| Debt service in % of Exports | 15 |
| Revenue | 18 |

| | |
|---|----|
| APPLICABLE | |
| TOTAL public debt benchmark | |
| PV of total public debt in percent of GDP | 55 |

| Calculation of the CI Index | | | | |
|--|------------------|----------------------------|---------------------------------|----------------------------|
| Components | Coefficients (A) | 10-year average values (B) | CI Score components (A*B) = (C) | Contribution of components |
| CPIA | 0.385 | 3.327 | 1.28 | 42% |
| Real growth rate (in percent) | 2.719 | 1.205 | 0.03 | 1% |
| Import coverage of reserves (in percent) | 4.052 | 57.963 | 2.35 | 78% |
| Import coverage of reserves^2 (in percent) | -3.990 | 33.597 | -1.34 | -44% |
| Remittances (in percent) | 2.022 | 14.560 | 0.29 | 10% |
| World economic growth (in percent) | 13.520 | 2.973 | 0.40 | 13% |
| CI Score | | | 3.018 | 100% |
| CI rating | | | Medium | |

SCENARIO STRESS TESTS

17. Similar to the earlier DSAs, staff conducted a contingent liability test for SOEs as well as a tailored stress test for a natural disaster shock given Vanuatu's vulnerability to natural disasters. For the combined contingent liability shock, staff adjusted the levels for the increase in public debt from SOEs to 2.0 percent of GDP to reflect the government's financial support to non-financial commercial SOEs¹⁵. Staff continued using the default decrease in GDP of 5 percent from financial market turbulence. For Vanuatu, the default 5 percent of GDP value of the contingent liability can be interpreted as including a capital injection to an undercapitalized domestic bank. Vanuatu, which is classified as a small developing natural-disaster-prone state in the IMF (2016) policy paper on small states, is automatically subject to the LIC-DSF standard natural disaster shock. This is a one-off shock of 10 percentage points in the debt-to-GDP ratio in the second year of the projection period (2026 for this case). Staff adjusted the default parameters by assuming a reduction of real GDP and export growth by 4 and 10 percentage points respectively.¹⁶

¹⁵ See ¶ 2 above for further details on the treatment of SOE debt.

¹⁶ See the details in IMF, 2016, "Small States' Resilience to Natural Disasters and Climate Change: Role for the IMF," *IMF Policy Paper December 2016* (<https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Small-States-Resilience-to-Natural-Disasters-and-Climate-Change-Role-for-the-IMF-PP5079>).

| Combined Contingent Liability shock | | | |
|---|--|-----------------------|--|
| 1 The country's coverage of public debt | The central government, central bank, government-guaranteed debt | | |
| | Default | Used for the analysis | Reasons for deviations from the default settings |
| 2 Other elements of the general government not captured in 1. | 0 percent of GDP | 0.0 | |
| 3 SoE's debt (guaranteed and not guaranteed by the government) 1/ | 2 percent of GDP | 2.0 | |
| 4 PPP | 35 percent of PPP stock | 0.0 | |
| 5 Financial market (the default value of 5 percent of GDP is the minimum value) | 5 percent of GDP | 5.0 | |
| Total (2+3+4+5) (in percent of GDP) | | 7.0 | |

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

18. None of the external debt indicators breach their indicative thresholds under the baseline scenario, unlike the previous DSA (Figure 1 and Table 1). In the previous DSA, the PV of external debt-to-GDP and external debt-to-exports indicators had breached their respective thresholds under the baseline, reflecting the sharp drop in exports projected due to the Air Vanuatu liquidation.

19. The stress tests indicate that an export shock has the largest impact on the external debt profile. Among the stress test scenarios, the export shock has the most severe impact, causing a breach to the threshold for multiple external debt metrics. The PV of external debt-to-GDP, PV of external debt-to-exports, and debt service-to-exports ratios all breach their respective thresholds at various periods of the forecast horizon. In the previous DSA, under the exports shock, the PV of debt-to-GDP had breached the threshold in 2030, while PV of debt-to-exports ratio breached the threshold from 2025 onwards.

- Under the contingent liabilities scenario, which captures the government's exposure to SOEs (excluding Air Vanuatu), none of the external debt indicators breach their thresholds. In the previous DSA, the PV of external debt-to-GDP and PV of external debt-to-exports breached their respective thresholds at various periods.
- Under the natural disaster scenario, the PV of external debt to-GDP ratio breaches its threshold beyond 2032. In the previous DSA, under this scenario the PV of external debt-to-GDP and PV of external debt-to-exports ratios breached their respective thresholds at various periods.

20. An alternative shock scenario, assuming zero ECP revenues, reveals some deterioration of the external debt profile, similar to the previous DSA. Under the assumption of zero ECP revenues, three quarters of lost ECP revenues are projected to be replaced by non-concessional external financing, with the remaining quarter by local debt issuance. Under this scenario, the PV of external debt-to-GDP ratio breaches the threshold of 40 in 2028 and beyond. The other external debt indicators breach their respective thresholds in the later years. In the previous DSA, all the external debt indicators breached their respective thresholds, reflecting the potential impact of the Air Vanuatu liquidation.

B. Public Sector Debt Sustainability Analysis

21. The PV of public-debt-to-GDP ratio breaches the benchmark under the baseline scenario (Figure 2 and Table 2). The PV of public-debt-to-GDP ratio breaches the 55 benchmark from 2032 and remains marginally above the benchmark for the remainder of the forecast horizon. This is earlier than the breach in June 2024 DSA (2033), reflecting the deterioration in fiscal dynamics in the medium-term.

22. Under the stress test scenarios, the PV of public debt-to-GDP metric breaches the benchmark under multiple scenarios, with the growth shock having the largest impact (Figure 2 and Table 4).

- Under the various shock scenarios, the PV of debt-to-GDP ratio breaches the benchmark starting in 2027 and remains above the benchmark for the remainder of the forecast horizon. The other public debt indicators, namely the PV of debt to revenue and the PV of debt service-to-revenue ratios, remain within their thresholds.
- Under the natural disaster scenario, the benchmark is breached in 2026, and the PV of debt-to-GDP remains above the benchmark for the remainder of the forecast horizon. In the previous DSA, the PV of debt-to-GDP ratio breached the benchmark in 2025.
- For the contingent liabilities shock, which captures the government's exposure to SOEs (excluding Air Vanuatu), and the alternative scenario of zero ECP revenues, the PV of debt-to-GDP ratio breaches the benchmark starting in 2027 and remains above the benchmark for the remainder of the forecast horizon. The other public debt indicators remain within their thresholds under both these scenarios. In the previous DSA, under both these scenarios, the PV of debt-to-GDP ratio breached the threshold from 2027 onward.

23. The scenarios reiterate the urgent need for addressing growing fiscal risks and rebuild buffers against potential shocks and maintain debt sustainability. The threshold breaches reflect mounting fiscal risks linked to declining revenues and rising expenditures, including on capex spending. Diversifying revenue sources and taxes on personal income are measures that would bolster revenue prospects in the medium-term. These need to be complemented with expenditure rationalization, including streamlined capex spending, improved public investment management and governance and enhanced capacity to effectively oversee infrastructure projects. Keeping spending under control will require urgently adopting a credible business plan for Air Vanuatu, as well as improving its management and financial standing—in particular, ensuring that the operational shortfalls financed from the budget and the need for financing guarantees are resolved. Meanwhile, the government has implemented PPAs under the SDFP¹⁷ which will help mitigate risks to debt sustainability.

¹⁷ As part of the SDFPs, i) the government agreed to not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt during the FY25 period (1 July 2024 - 30 June 2025), and, ii) the MFEM approved a Cash Management Policy which improves management of cash buffers, cash forecasting frameworks, and integration of cash management and budgetary controls.

RISK RATING AND VULNERABILITIES

24. Vanuatu's risk of external debt distress has improved from high to moderate. The external debt profile has markedly improved following the creditors' agreement reached for Air Vanuatu in August 2024. Following the agreement and the creation of AV3 Limited, contingent liabilities linked to Air Vanuatu (equivalent to about 4 percent of GDP) are no longer accounted for in Vanuatu's external debt in 2024. Additionally, the June 2024 DSA classification of "high risk" of external debt distress resulted in multiple creditors shifting away from loans into grants for their ongoing support to Vanuatu, resulting in some flattening of the debt profile in the near term. Somewhat reduced grant flows are expected in the future, as recent support related to natural disasters fades off. All the external debt indicators remain within their thresholds under the baseline, with external debt now estimated to remain relatively unchanged through 2027, before rising to 40 percent of GDP in 2034. However, the sensitivity to export-related shocks remains a concern, signaling the need to maintain strong external buffers. Additionally, the ECP revenues shock and the natural disaster shock also highlight the looming risks to external debt sustainability in the medium-term. Meanwhile, the granularity assessment reveals that Vanuatu has limited space to absorb shocks (Figure 5). In this context, decisive medium-term fiscal consolidation and prudent external borrowing and debt management strategies are essential to avoid further deterioration in debt distress risks.

25. Vanuatu's overall risk of debt distress remains high, and the public debt is deemed sustainable. The benchmark for the PV of public-debt-to-GDP ratio is marginally breached under the baseline scenario and there are breaches across multiple stress test scenarios. Additionally, the public-debt-to-GDP ratio would breach the authorities' ceiling of 60 percent by 2031. As highlighted in the June 2024 DSA, the sustainability of the public debt is partly contingent on the successful restructuring of Air Vanuatu, restoring its commercial viability for domestic operations and the government's ability to access highly concessional loans. While the restructuring of the airline is now complete, sustainability of its domestic operations is yet to be assessed. Vanuatu also continues to have access to concessional loans from development partners. The worsening debt dynamics highlight the urgent need for careful fiscal management to restore fiscal buffers for handling future crises. Alongside stringent measures to prevent the accumulation of non-concessional external debt, it is essential to enhance revenue collection efforts, broaden the tax base, and implement income tax. Once the economy stabilizes following the aftermath of the earthquake, aggressively rationalizing expenditures in the subsequent years is vital to maintain fiscal sustainability.

AUTHORITIES' VIEWS

26. The authorities indicated a strong preference to continue supporting the domestic operations of Air Vanuatu (AV3) into the foreseeable future. Talks on a potential joint-venture with international partners have elapsed and the government has assumed the role of sole-owner of the airline. The government is in discussions with Airbus regarding a settlement on earlier payments¹⁸ and has also included plans in Budget 2025 to purchase new planes to bolster domestic operations. Authorities indicated that the Government Business Enterprises (GBE) unit, once fully staffed, will administer Board appointments at AV3 and ensure timely reporting of financial statements at the airline.

27. Authorities concurred with staff views on the urgent need to rebuild fiscal buffers to ensure fiscal and debt sustainability. They acknowledged importance of implementing fiscal reforms swiftly. The authorities have a more optimistic view regarding the earthquake's impact compared to staff's fiscal projections. They indicated that revenues have surprised on the upside despite the earthquake, including from the ECP, and the administration was preparing a holistic revenue strategy to enhance revenues, including via: a) exploring options in the medium term to broaden the tax base, including by introducing a personal income and corporate tax; b) fast-tracking the procurement of the purchase of a new VAT monitoring system to meet the 2025 budget target; c) undertaking a full review of the Excise Tax Act and import duties to help fill any revenue gaps; d) increasing the high value procurement threshold from VT10 million to VT30 million, and, e) collecting dividends from the SOEs by effectively implementing the GBEU Act. The authorities acknowledged challenges to sustain ECP revenues and pointed to several important measures undertaken to address governance and transparency issues in the citizenship program. Given the impact of the earthquake, they anticipated increased spending on recovery efforts this year and hoped to tighten expenditures in the 2026 Budget cycle. They acknowledged the sharp increase in spending on wages, allowances, travel and attributed some of these increases to the GRT and the administration's priority to enhance economic activity in all the provinces. They added that a key priority was to identify sustainable cost savings and introduce reforms to specific sectors (e.g. Education, Labor market, Digital economy) to improve the returns on governments investments. The authorities recognized the importance of developing the domestic government bond market.

28. Given the government's spending plans for earthquake support, the economic recovery and expenses pertaining to Air Vanuatu, domestic debt is expected to rise sharply. The authorities indicated that they will need to raise approximately VT 4 billion from domestic bond markets in 2025, the highest annual domestic issuance on record. They expect to issue domestic bonds in smaller lot sizes than in the past, including via T-bills for the first time, to attract interest from domestic banks. While the authorities do not expect to take on any additional concessional

¹⁸ The government paid around VT2 billion to Airbus in 2019/2020 as a deposit towards purchase of 4 planes. Due to COVID, the government didn't take delivery of these planes and is now in discussions with Airbus to recover the deposit.

external debt in the near future, they indicated that an EXIM bank-loan that has been under negotiations for several years has now finally been approved for disbursement.

29. Authorities acknowledged the upgrade in DSA rating on external debt distress from “high” to “moderate”. They indicated ongoing discussions with donors to secure primarily grant financing for subsequent years despite this upgrade in status. They expressed some concern over the volatility in the DSA rating changes and the potential impact on grants access, while acknowledging the transparency in the treatment of Air Vanuatu in the DSA and the implications of the recent creditors’ agreement on the debt profile.

Table 1. Vanuatu: External Debt Sustainability Framework, Baseline Scenario, 2022–45

(In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | | | | | Average 8/ Historical Projections | |
|--|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------------------------------|-------------|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2045 | Historical | Projections |
| External debt (nominal) 1/ | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 | 33.1 | 33.7 | 35.0 | 36.5 | 37.8 | 38.7 | 39.6 | 40.6 | 41.7 | 51.6 | 36.0 | 36.6 |
| <i>of which: public and publicly guaranteed (PPG)</i> | <i>34.1</i> | <i>32.2</i> | <i>32.9</i> | <i>33.2</i> | <i>32.5</i> | <i>33.1</i> | <i>33.7</i> | <i>35.0</i> | <i>36.5</i> | <i>37.8</i> | <i>38.7</i> | <i>39.6</i> | <i>40.6</i> | <i>41.7</i> | <i>51.6</i> | <i>36.0</i> | <i>36.6</i> |
| Change in external debt | -6.6 | -1.9 | 0.6 | 0.4 | -0.7 | 0.6 | 0.6 | 1.3 | 1.6 | 1.3 | 0.9 | 0.9 | 0.9 | 1.1 | 0.6 | | |
| Identified net debt-creating flows | 10.9 | 2.8 | 12.3 | 7.4 | 7.4 | 5.8 | 2.9 | 2.1 | 1.5 | 0.6 | -0.3 | 0.1 | 0.1 | 0.5 | -1.1 | 3.4 | 2.5 |
| Non-interest current account deficit | 17.2 | 6.3 | 15.0 | 11.2 | 11.2 | 9.3 | 6.3 | 5.3 | 4.5 | 3.5 | 2.5 | 2.8 | 2.7 | 3.0 | -0.7 | 7.8 | 5.7 |
| Deficit in balance of goods and services | 44.3 | 28.4 | 33.1 | 35.2 | 33.1 | 30.1 | 26.6 | 25.6 | 24.3 | 23.0 | 21.9 | 21.9 | 21.6 | 21.8 | 0.0 | 27.7 | 25.9 |
| Exports | 14.4 | 23.5 | 20.3 | 21.2 | 22.6 | 24.4 | 25.2 | 25.3 | 25.3 | 25.4 | 25.5 | 25.5 | 25.6 | 25.7 | 0.0 | | |
| Imports | 58.7 | 51.9 | 53.4 | 56.4 | 55.7 | 54.5 | 51.8 | 50.8 | 49.6 | 48.4 | 47.3 | 47.5 | 47.3 | 47.4 | 0.0 | | |
| Net current transfers (negative = inflow) | -8.9 | -12.1 | -9.7 | -12.0 | -10.6 | -10.2 | -10.0 | -9.9 | -9.7 | -9.7 | -9.7 | -9.7 | -9.7 | -9.7 | 0.0 | -9.6 | -10.1 |
| <i>of which: official</i> | -8.0 | -8.2 | -9.2 | -8.7 | -7.3 | -7.0 | -6.7 | -6.6 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | 0.0 | | |
| Other current account flows (negative = net inflow) | -18.1 | -9.9 | -8.4 | -11.9 | -11.3 | -10.5 | -10.3 | -10.4 | -10.1 | -9.8 | -9.6 | -9.4 | -9.2 | -9.0 | -0.7 | -10.3 | -10.1 |
| Net FDI (negative = inflow) | -2.3 | -1.1 | -4.2 | -3.7 | -3.3 | -3.1 | -3.1 | -3.0 | -2.7 | -2.6 | -2.5 | -2.4 | -2.3 | -2.2 | 0.0 | -3.6 | -2.8 |
| Endogenous debt dynamics 2/ | -4.1 | -2.4 | 1.4 | -0.2 | -0.5 | 0.4 | -0.3 | -0.3 | 0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.4 | -0.4 | | |
| Contribution from nominal interest rate | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.7 | | |
| Contribution from real GDP growth | -1.9 | -0.7 | -0.3 | -0.5 | -0.9 | -0.8 | -0.7 | -0.8 | -0.8 | -0.8 | -0.8 | -0.9 | -0.9 | -0.9 | -1.1 | | |
| Contribution from price and exchange rate changes | -2.6 | -2.1 | 1.4 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | | |
| Residual 3/ | -17.4 | -4.7 | -11.7 | -7.0 | -6.1 | -5.2 | -2.4 | -0.8 | 0.1 | 0.7 | 1.2 | 0.9 | 0.9 | 0.6 | 1.8 | -1.6 | -1.7 |
| <i>of which: exceptional financing</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | | |
| Sustainability indicators | | | | | | | | | | | | | | | | | |
| PV of PPG external debt-to-GDP ratio | ... | ... | 29.8 | 30.4 | 29.6 | 29.6 | 29.6 | 30.0 | 30.8 | 31.4 | 31.6 | 31.9 | 32.1 | 32.6 | 37.0 | | |
| PV of PPG external debt-to-exports ratio | ... | ... | 146.7 | 143.5 | 131.0 | 121.2 | 117.5 | 118.9 | 121.7 | 123.6 | 124.2 | 124.8 | 125.5 | 127.0 | ... | | |
| PPG debt service-to-exports ratio | 13.7 | 15.4 | 8.9 | 9.4 | 9.5 | 8.7 | 8.2 | 7.9 | 6.3 | 6.3 | 7.8 | 7.8 | 7.7 | 7.1 | ... | | |
| PPG debt service-to-revenue ratio | 8.4 | 14.3 | 6.4 | 8.4 | 9.3 | 8.9 | 8.6 | 8.3 | 6.6 | 6.6 | 8.3 | 8.3 | 8.3 | 7.6 | ... | | |
| Gross external financing need (Million of U.S. dollars) | 175.1 | 99.4 | 138.1 | 106.5 | 117.7 | 103.1 | 68.0 | 58.6 | 47.5 | 36.7 | 31.2 | 38.5 | 40.9 | 46.9 | 44.8 | | |
| Key macroeconomic assumptions | | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.2 | 2.1 | 0.9 | 1.7 | 2.8 | 2.7 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.0 | 2.3 |
| GDP deflator in US dollar terms (change in percent) | 6.8 | 6.5 | -4.1 | 1.0 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 1.7 | 2.1 |
| Effective interest rate (percent) 4/ | 1.0 | 1.2 | 1.2 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.2 | 1.4 |
| Growth of exports of G&S (US dollar terms, in percent) | 77.6 | 77.3 | -16.3 | 7.1 | 12.2 | 13.3 | 8.0 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | -100.0 | 2.9 | 6.8 |
| Growth of imports of G&S (US dollar terms, in percent) | 21.1 | -3.9 | -0.2 | 8.3 | 3.9 | 2.8 | -0.7 | 2.7 | 2.1 | 2.0 | 2.3 | 4.9 | 4.1 | 5.0 | -100.0 | 3.6 | 3.4 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 41.0 | 47.2 | 46.2 | 45.6 | 45.9 | 46.2 | 48.6 | 48.6 | 48.5 | 48.3 | 48.2 | 46.4 | ... | 46.8 |
| Government revenues (excluding grants, in percent of GDP) | 23.5 | 25.4 | 28.3 | 23.7 | 23.3 | 23.9 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 26.6 | 23.9 |
| Aid flows (in Million of US dollars) 5/ | 125.0 | 172.0 | 113.4 | 128.7 | 118.4 | 131.3 | 128.4 | 136.5 | 139.9 | 147.3 | 155.1 | 162.2 | 169.7 | 177.5 | 273.0 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 10.7 | 9.8 | 9.7 | 9.0 | 9.1 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 9.0 | 9.0 | ... | 9.3 |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 84.8 | 87.5 | 82.3 | 82.1 | 79.9 | 79.7 | 81.4 | 81.1 | 80.9 | 80.7 | 80.5 | 79.0 | ... | 81.9 |
| Nominal GDP (Million of US dollars) | 1,035 | 1,125 | 1,090 | 1,119 | 1,176 | 1,235 | 1,292 | 1,351 | 1,413 | 1,478 | 1,546 | 1,617 | 1,691 | 1,769 | 2,772 | | |
| Nominal dollar GDP growth | 12.3 | 8.7 | -3.2 | 2.7 | 5.1 | 5.0 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 3.7 | 4.5 |
| Memorandum items: | | | | | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 29.8 | 30.4 | 29.6 | 29.6 | 29.6 | 30.0 | 30.8 | 31.4 | 31.6 | 31.9 | 32.1 | 32.6 | 37.0 | | |
| <i>In percent of exports</i> | <i>...</i> | <i>...</i> | <i>146.7</i> | <i>143.5</i> | <i>131.0</i> | <i>121.2</i> | <i>117.5</i> | <i>118.9</i> | <i>121.7</i> | <i>123.6</i> | <i>124.2</i> | <i>124.8</i> | <i>125.5</i> | <i>127.0</i> | <i>...</i> | | |
| Total external debt service-to-exports ratio | 13.7 | 15.4 | 8.9 | 9.4 | 9.5 | 8.7 | 8.2 | 7.9 | 6.3 | 6.3 | 7.8 | 7.8 | 7.7 | 7.1 | ... | | |
| PV of PPG external debt (in Million of US dollars) | ... | ... | 324.9 | 340.3 | 348.4 | 365.3 | 382.4 | 405.8 | 435.6 | 463.9 | 488.7 | 515.2 | 543.6 | 577.0 | 1025.6 | | |
| (PVT-PV-1)/GDPT-1 (in percent) | ... | ... | ... | 1.4 | 0.7 | 1.4 | 1.4 | 1.8 | 2.2 | 2.0 | 1.7 | 1.7 | 1.8 | 2.0 | 1.9 | | |
| Non-interest current account deficit that stabilizes debt ratio | 23.8 | 8.2 | 14.4 | 10.9 | 11.9 | 8.7 | 5.7 | 4.1 | 2.9 | 2.2 | 1.6 | 1.8 | 1.8 | 1.9 | -1.3 | | |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\alpha)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; ρ = growth rate of GDP deflator in U.S. dollar terms; ϵ = nominal appreciation of the local currency; and α = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

| Definition of external/domestic debt | Residency-based |
|--|-----------------|
| Is there a material difference between the two criteria? | No |

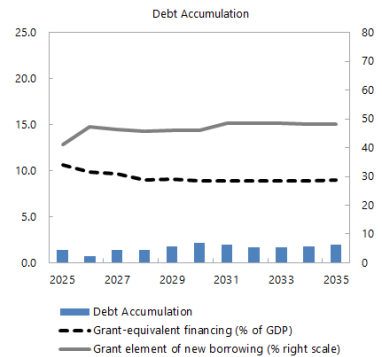


Table 2. Vanuatu: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–45
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | | | | | | Average 6/ | |
|--|--------|------|-------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------|-------------|--|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2045 | Historical | Projections | |
| Public sector debt 1/ | 43.6 | 42.6 | 46.2 | 49.3 | 52.0 | 54.2 | 56.1 | 57.8 | 59.3 | 60.8 | 62.2 | 63.6 | 65.0 | 66.4 | 77.1 | 45.2 | 58.8 | |
| of which: external debt | 34.1 | 32.2 | 32.9 | 33.2 | 32.5 | 33.1 | 33.7 | 35.0 | 36.5 | 37.8 | 38.7 | 39.6 | 40.6 | 41.7 | 51.6 | 36.0 | 36.6 | |
| Change in public sector debt | -5.9 | -1.0 | 13.3 | 16.0 | 19.5 | 21.1 | 22.4 | 22.9 | 22.8 | 23.0 | 23.5 | 24.0 | 24.4 | 24.7 | 25.5 | | | |
| Identified debt-creating flows | 0.9 | -2.9 | 4.4 | 3.2 | 2.4 | 2.0 | 1.5 | 1.5 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.0 | -0.6 | 1.6 | |
| Primary deficit | 5.7 | 0.0 | 1.5 | 3.9 | 3.3 | 2.7 | 2.0 | 1.9 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 | 0.2 | 2.1 | |
| Revenue and grants | 35.5 | 40.6 | 38.7 | 33.0 | 31.9 | 31.8 | 31.4 | 31.1 | 30.9 | 30.9 | 30.9 | 30.9 | 30.9 | 30.9 | 30.9 | 38.9 | 31.3 | |
| of which: grants | 12.1 | 15.3 | 10.4 | 9.3 | 8.6 | 7.9 | 7.4 | 7.2 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | | | |
| Primary (noninterest) expenditure | 41.2 | 40.7 | 40.2 | 36.9 | 35.2 | 34.5 | 33.4 | 33.0 | 32.5 | 32.5 | 32.5 | 32.5 | 32.5 | 32.5 | 32.4 | 39.2 | 33.4 | |
| Automatic debt dynamics | -4.8 | -3.0 | 3.0 | -0.7 | -0.9 | -0.7 | -0.5 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.3 | -0.4 | | | |
| Contribution from interest rate/growth differential | -2.9 | -1.2 | 0.1 | -0.7 | -0.9 | -0.7 | -0.5 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.3 | -0.4 | | | |
| of which: contribution from average real interest rate | -0.5 | -0.3 | 0.5 | 0.0 | 0.5 | 0.6 | 0.7 | 0.9 | 0.9 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.3 | | | |
| of which: contribution from real GDP growth | -2.4 | -0.9 | -0.4 | -0.8 | -1.4 | -1.4 | -1.2 | -1.3 | -1.3 | -1.4 | -1.4 | -1.4 | -1.4 | -1.5 | -1.7 | | | |
| Contribution from real exchange rate depreciation | -1.9 | -1.8 | 2.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | | | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Residual | -6.8 | 1.9 | -0.8 | -0.1 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | -0.1 | 3.1 | 0.2 | |
| Sustainability indicators | | | | | | | | | | | | | | | | | | |
| PV of public debt-to-GDP ratio 2/ | ... | ... | 43.5 | 46.5 | 49.1 | 50.7 | 52.0 | 52.9 | 53.6 | 54.4 | 55.1 | 55.8 | 56.6 | 57.3 | 62.5 | | | |
| PV of public debt-to-revenue and grants ratio | ... | ... | 112.3 | 140.8 | 154.0 | 159.6 | 165.8 | 169.9 | 173.5 | 175.9 | 178.2 | 180.6 | 182.9 | 185.4 | 202.2 | | | |
| Debt service-to-revenue and grants ratio 3/ | 9.4 | 12.2 | 7.8 | 10.1 | 10.0 | 11.4 | 12.7 | 20.5 | 12.2 | 15.6 | 15.4 | 15.0 | 18.0 | 21.6 | 22.7 | | | |
| Gross financing need 4/ | 9.0 | 5.0 | 4.5 | 7.2 | 6.5 | 6.3 | 6.0 | 6.2 | 5.4 | 6.4 | 6.3 | 6.2 | 7.1 | 8.2 | 8.4 | | | |
| Key macroeconomic and fiscal assumptions | | | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.2 | 2.1 | 0.9 | 1.7 | 2.8 | 2.7 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.0 | 2.3 | |
| Average nominal interest rate on external debt (in percent) | 1.0 | 1.2 | 1.1 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.2 | 1.4 | |
| Average real interest rate on domestic debt (in percent) | -4.5 | -0.5 | 7.2 | 2.4 | 4.5 | 4.4 | 4.6 | 4.8 | 5.1 | 5.3 | 5.4 | 5.6 | 5.7 | 5.8 | 6.4 | 2.0 | 4.9 | |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -4.8 | -5.4 | 9.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | -0.3 | ... | |
| Inflation rate (GDP deflator, in percent) | 11.2 | 7.0 | -0.7 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 4.0 | 2.2 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -0.2 | 0.7 | -0.2 | -6.8 | -2.0 | 0.7 | -0.9 | 1.2 | 0.8 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 10.9 | 0.4 | |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | 11.6 | 1.0 | -2.1 | 0.8 | 0.6 | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 | 3.5 | 0.3 | |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

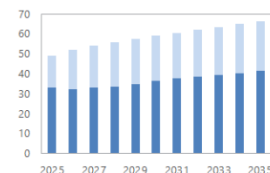
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

| Definition of external/domestic debt | Residency-based |
|--|-----------------|
| Is there a material difference between the two criteria? | No |

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents

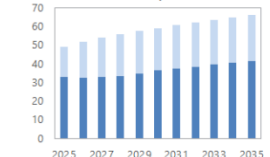
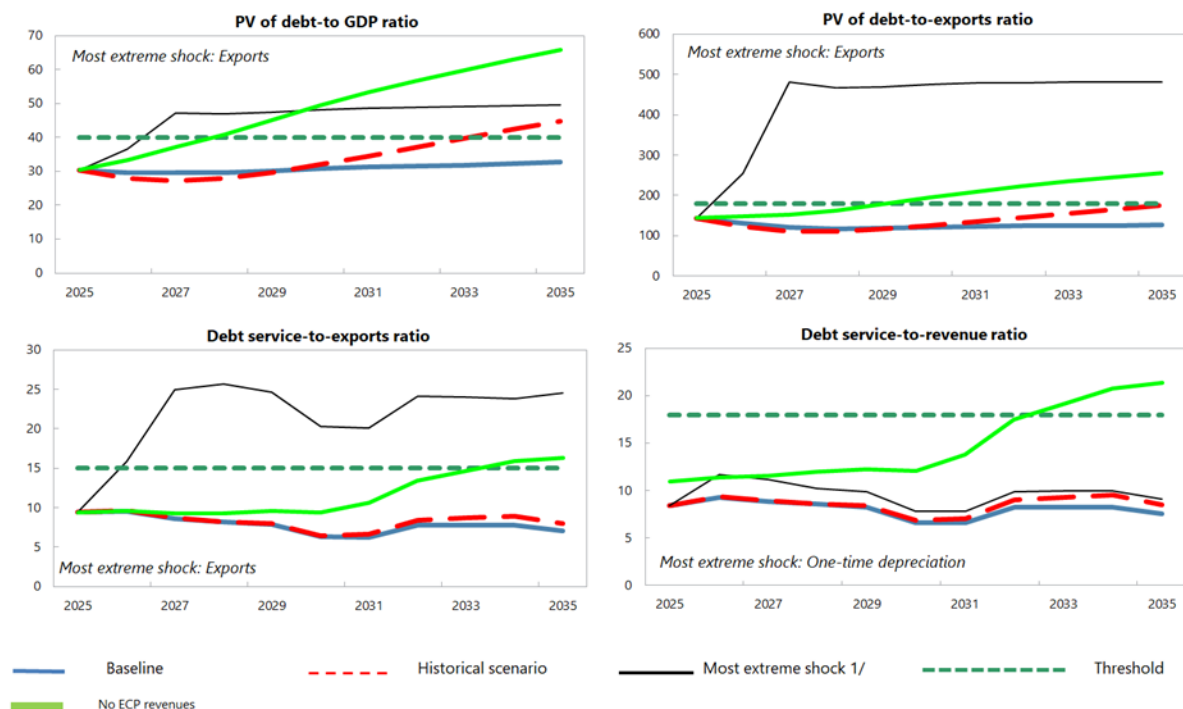


Figure 1. Vanuatu: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2025–35 1/

Figure 1. Vanuatu: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2025-2035



| Customization of Default Settings | | |
|-----------------------------------|------|--------------|
| | Size | Interactions |
| Standardized Tests | Yes | |
| Tailored Stress | | |
| Combined CL | No | |
| Natural disaster | No | Yes |
| Commodity price | n.a. | n.a. |
| Market financing | n.a. | n.a. |

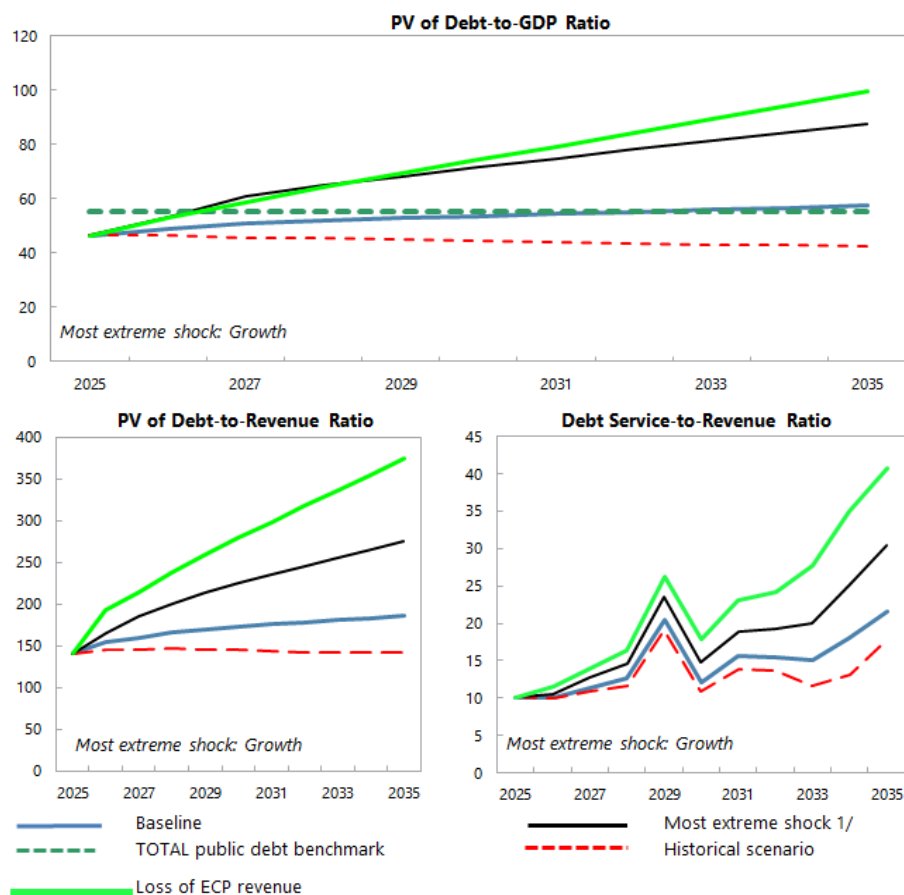
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

| Borrowing assumptions on additional financing needs resulting from the stress tests* | | |
|--|---------|--------------|
| | Default | User defined |
| Shares of marginal debt | | |
| External PPG MLT debt | 100% | |
| Terms of marginal debt | | |
| Avg. nominal interest rate on new borrowing in USD | 1.3% | 1.3% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 32 | 32 |
| Avg. grace period | 8 | 8 |

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Vanuatu: Indicators of Public Debt Under Alternative Scenarios, 2025–35 1/

| Borrowing assumptions on additional financing needs resulting from the stress tests* | Default | User defined |
|--|---------|--------------|
| Shares of marginal debt | | |
| External PPG medium and long-term | 55% | 55% |
| Domestic medium and long-term | 45% | 45% |
| Domestic short-term | 0% | 0% |
| Terms of marginal debt | | |
| External MLT debt | | |
| Avg. nominal interest rate on new borrowing in USD | 1.3% | 1.3% |
| Avg. maturity (incl. grace period) | 32 | 32 |
| Avg. grace period | 8 | 8 |
| Domestic MLT debt | | |
| Avg. real interest rate on new borrowing | 5.7% | 5.7% |
| Avg. maturity (incl. grace period) | 8 | 8 |
| Avg. grace period | 6 | 6 |
| Domestic short-term debt | | |
| Avg. real interest rate | 2.3% | 2.3% |

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Vanuatu: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–35
(In percent)

| | Projections 1/ | | | | | | | | | | |
|--|----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
| PV of debt-to-GDP ratio | | | | | | | | | | | |
| Baseline | 30 | 30 | 30 | 30 | 30 | 31 | 31 | 32 | 32 | 32 | 33 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 30 | 28 | 27 | 28 | 30 | 32 | 34 | 37 | 40 | 42 | 45 |
| A2. Alternative Scenario: [Loss of ECP revenues] | 30 | 33 | 37 | 41 | 45 | 49 | 53 | 57 | 60 | 63 | 66 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 30 | 32 | 33 | 34 | 34 | 35 | 36 | 36 | 36 | 36 | 37 |
| B2. Primary balance | 30 | 31 | 32 | 32 | 33 | 34 | 34 | 35 | 35 | 36 | 37 |
| B3. Exports | 30 | 36 | 47 | 47 | 47 | 48 | 49 | 49 | 49 | 49 | 49 |
| B4. Other flows 3/ | 30 | 34 | 37 | 37 | 38 | 38 | 39 | 39 | 39 | 40 | 40 |
| B5. Depreciation | 30 | 37 | 31 | 31 | 32 | 33 | 34 | 34 | 34 | 35 | 35 |
| B6. Combination of B1-B5 | 30 | 38 | 39 | 39 | 40 | 40 | 41 | 41 | 41 | 42 | 42 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 30 | 32 | 32 | 32 | 32 | 33 | 34 | 34 | 35 | 35 | 36 |
| C2. Natural disaster | 30 | 34 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Threshold | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| PV of debt-to-exports ratio | | | | | | | | | | | |
| Baseline | 144 | 131 | 121 | 118 | 119 | 122 | 124 | 124 | 125 | 126 | 127 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 144 | 124 | 111 | 111 | 117 | 126 | 136 | 146 | 155 | 165 | 175 |
| A2. Alternative Scenario: [Loss of ECP revenues] | 144 | 148 | 152 | 162 | 178 | 195 | 210 | 223 | 234 | 245 | 256 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 144 | 131 | 121 | 118 | 119 | 122 | 124 | 124 | 125 | 126 | 127 |
| B2. Primary balance | 144 | 137 | 132 | 129 | 130 | 133 | 135 | 136 | 138 | 140 | 143 |
| B3. Exports | 144 | 254 | 482 | 466 | 469 | 475 | 479 | 479 | 480 | 481 | 481 |
| B4. Other flows 3/ | 144 | 149 | 153 | 148 | 149 | 152 | 154 | 154 | 154 | 155 | 155 |
| B5. Depreciation | 144 | 131 | 102 | 99 | 101 | 104 | 106 | 106 | 107 | 108 | 110 |
| B6. Combination of B1-B5 | 144 | 192 | 142 | 214 | 216 | 220 | 223 | 223 | 224 | 225 | 225 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 144 | 140 | 130 | 126 | 128 | 131 | 133 | 134 | 136 | 138 | 139 |
| C2. Natural disaster | 144 | 159 | 149 | 146 | 149 | 154 | 157 | 160 | 164 | 169 | 172 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Threshold | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 |
| Debt service-to-exports ratio | | | | | | | | | | | |
| Baseline | 9 | 10 | 9 | 8 | 8 | 6 | 6 | 8 | 8 | 8 | 7 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 9 | 10 | 9 | 8 | 8 | 6 | 7 | 8 | 9 | 9 | 8 |
| A2. Alternative Scenario: [Loss of ECP revenues] | 9 | 10 | 9 | 9 | 10 | 9 | 11 | 13 | 15 | 16 | 16 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 9 | 10 | 9 | 8 | 8 | 6 | 6 | 8 | 8 | 8 | 7 |
| B2. Primary balance | 9 | 10 | 9 | 8 | 8 | 7 | 7 | 8 | 8 | 8 | 8 |
| B3. Exports | 9 | 16 | 25 | 26 | 25 | 20 | 20 | 24 | 24 | 24 | 25 |
| B4. Other flows 3/ | 9 | 10 | 9 | 9 | 9 | 7 | 7 | 8 | 8 | 8 | 8 |
| B5. Depreciation | 9 | 10 | 9 | 8 | 7 | 6 | 6 | 7 | 7 | 7 | 7 |
| B6. Combination of B1-B5 | 9 | 12 | 14 | 13 | 13 | 10 | 10 | 13 | 13 | 13 | 13 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 9 | 10 | 9 | 8 | 8 | 6 | 6 | 8 | 8 | 8 | 7 |
| C2. Natural disaster | 9 | 10 | 10 | 9 | 9 | 7 | 7 | 9 | 9 | 9 | 8 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Threshold | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Debt service-to-revenue ratio | | | | | | | | | | | |
| Baseline | 8 | 9 | 9 | 9 | 8 | 7 | 7 | 8 | 8 | 8 | 8 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 8 | 9 | 9 | 9 | 8 | 7 | 7 | 9 | 9 | 10 | 9 |
| A2. Alternative Scenario: [Loss of ECP revenues] | 11 | 11 | 12 | 12 | 12 | 12 | 14 | 17 | 19 | 21 | 21 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 8 | 10 | 10 | 10 | 9 | 8 | 8 | 9 | 9 | 9 | 9 |
| B2. Primary balance | 8 | 9 | 9 | 9 | 9 | 7 | 7 | 9 | 9 | 9 | 8 |
| B3. Exports | 8 | 10 | 10 | 11 | 10 | 9 | 9 | 10 | 10 | 10 | 11 |
| B4. Other flows 3/ | 8 | 9 | 9 | 9 | 9 | 7 | 7 | 9 | 9 | 9 | 9 |
| B5. Depreciation | 8 | 12 | 11 | 10 | 10 | 8 | 8 | 10 | 10 | 10 | 9 |
| B6. Combination of B1-B5 | 8 | 10 | 11 | 10 | 10 | 8 | 8 | 10 | 10 | 10 | 10 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 8 | 9 | 9 | 9 | 8 | 7 | 7 | 8 | 8 | 9 | 8 |
| C2. Natural disaster | 8 | 9 | 9 | 9 | 9 | 7 | 7 | 9 | 9 | 9 | 8 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Threshold | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Vanuatu: Sensitivity Analysis for Key Indicators of Public Debt 2025–35

| | Projections 1/ | | | | | | | | | | |
|--|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
| PV of Debt-to-GDP Ratio | | | | | | | | | | | |
| Baseline | 46 | 49 | 51 | 52 | 53 | 54 | 54 | 55 | 56 | 57 | 57 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 46 | 46 | 46 | 45 | 45 | 44 | 44 | 43 | 43 | 43 | 42 |
| A2. Alternative Scenario: [Loss of ECP revenue] | 46 | 53 | 59 | 64 | 69 | 74 | 79 | 84 | 89 | 94 | 99 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 46 | 53 | 61 | 65 | 68 | 72 | 75 | 78 | 81 | 85 | 88 |
| B2. Primary balance | 46 | 52 | 57 | 59 | 60 | 60 | 61 | 62 | 63 | 63 | 64 |
| B3. Exports | 46 | 54 | 64 | 65 | 66 | 67 | 67 | 68 | 69 | 69 | 70 |
| B4. Other flows 3/ | 46 | 53 | 58 | 60 | 61 | 61 | 62 | 63 | 63 | 64 | 65 |
| B5. Depreciation | 46 | 56 | 55 | 54 | 53 | 53 | 52 | 51 | 50 | 49 | 48 |
| B6. Combination of B1-B5 | 46 | 50 | 53 | 53 | 54 | 55 | 56 | 56 | 57 | 58 | 58 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 46 | 54 | 56 | 57 | 58 | 59 | 60 | 61 | 61 | 62 | 62 |
| C2. Natural disaster | 46 | 59 | 62 | 64 | 66 | 67 | 69 | 70 | 71 | 73 | 74 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| TOTAL public debt benchmark | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| PV of Debt-to-Revenue Ratio | | | | | | | | | | | |
| Baseline | 141 | 154 | 160 | 166 | 170 | 173 | 176 | 178 | 181 | 183 | 185 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 141 | 146 | 145 | 146 | 146 | 145 | 144 | 142 | 142 | 142 | 141 |
| A2. Alternative Scenario: [Loss of ECP revenue] | 10 | 12 | 14 | 16 | 26 | 18 | 23 | 24 | 28 | 35 | 41 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 141 | 165 | 186 | 201 | 213 | 225 | 235 | 245 | 256 | 265 | 275 |
| B2. Primary balance | 141 | 164 | 180 | 187 | 192 | 196 | 198 | 201 | 203 | 204 | 206 |
| B3. Exports | 141 | 169 | 202 | 208 | 212 | 216 | 218 | 220 | 222 | 225 | 226 |
| B4. Other flows 3/ | 141 | 167 | 184 | 190 | 195 | 198 | 200 | 203 | 205 | 207 | 209 |
| B5. Depreciation | 141 | 179 | 177 | 177 | 175 | 173 | 170 | 167 | 164 | 161 | 159 |
| B6. Combination of B1-B5 | 141 | 159 | 167 | 170 | 174 | 177 | 180 | 182 | 185 | 187 | 189 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 141 | 171 | 176 | 183 | 187 | 191 | 194 | 196 | 198 | 199 | 202 |
| C2. Natural disaster | 141 | 184 | 192 | 202 | 209 | 215 | 220 | 225 | 229 | 232 | 237 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Debt Service-to-Revenue Ratio | | | | | | | | | | | |
| Baseline | 10 | 10 | 11 | 13 | 20 | 12 | 16 | 15 | 15 | 18 | 22 |
| A. Alternative Scenarios | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2025-2035 2/ | 10 | 10 | 11 | 12 | 19 | 11 | 14 | 14 | 12 | 13 | 18 |
| A2. Alternative Scenario: [Loss of ECP revenue] | 10 | 12 | 14 | 16 | 26 | 18 | 23 | 24 | 28 | 35 | 41 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real GDP growth | 10 | 11 | 13 | 15 | 24 | 15 | 19 | 19 | 20 | 25 | 30 |
| B2. Primary balance | 10 | 10 | 12 | 14 | 22 | 13 | 17 | 17 | 19 | 24 | 25 |
| B3. Exports | 10 | 10 | 12 | 14 | 21 | 13 | 16 | 16 | 16 | 19 | 23 |
| B4. Other flows 3/ | 10 | 10 | 12 | 13 | 21 | 13 | 16 | 16 | 16 | 18 | 23 |
| B5. Depreciation | 10 | 11 | 13 | 14 | 21 | 13 | 16 | 17 | 16 | 18 | 21 |
| B6. Combination of B1-B5 | 10 | 10 | 11 | 13 | 21 | 12 | 16 | 16 | 15 | 19 | 23 |
| C. Tailored Tests | | | | | | | | | | | |
| C1. Combined contingent liabilities | 10 | 10 | 12 | 14 | 21 | 13 | 16 | 16 | 20 | 22 | 23 |
| C2. Natural disaster | 10 | 10 | 13 | 15 | 23 | 14 | 18 | 18 | 23 | 27 | 26 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

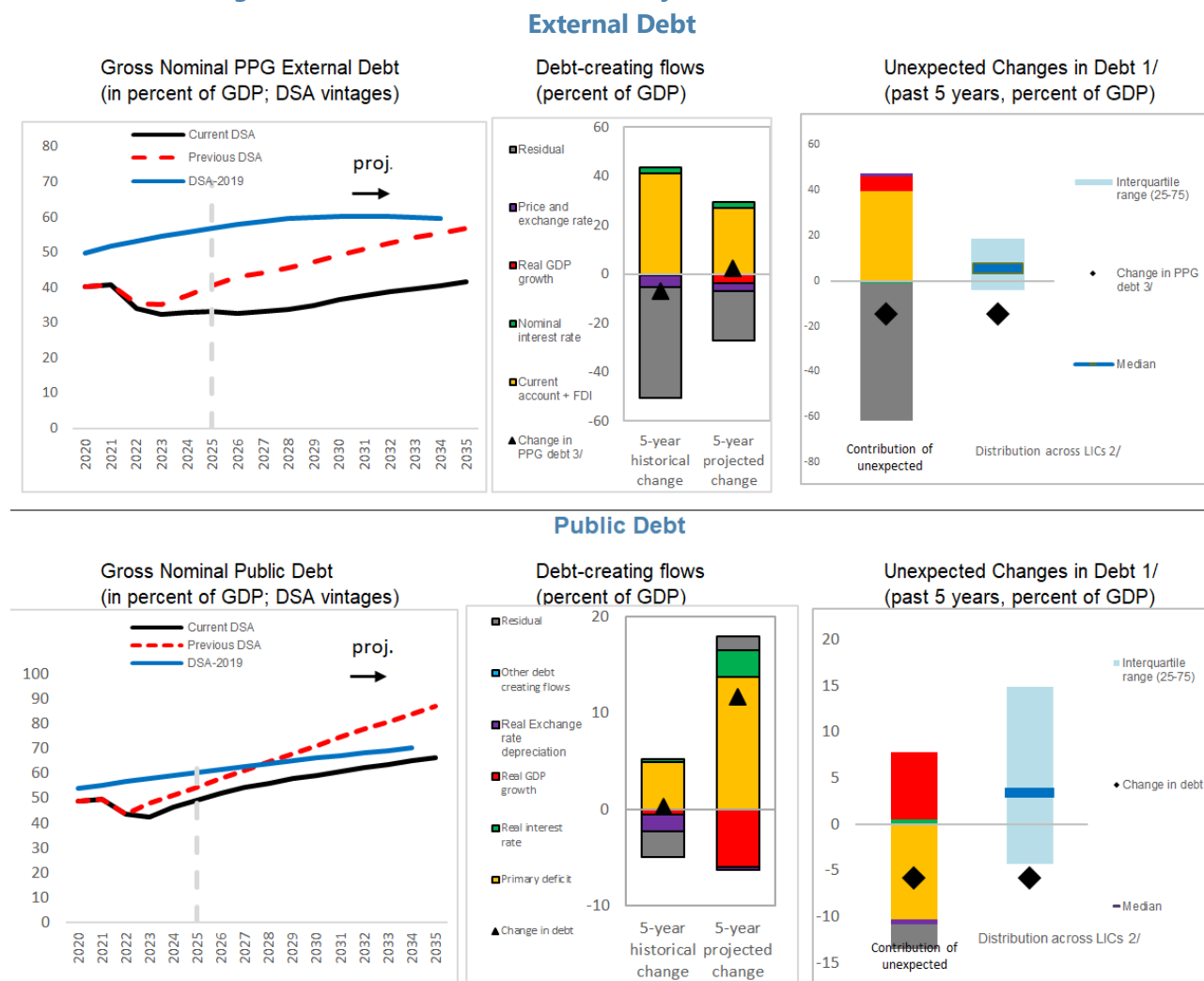
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Vanuatu: Drivers of Debt Dynamics – Baseline Scenario

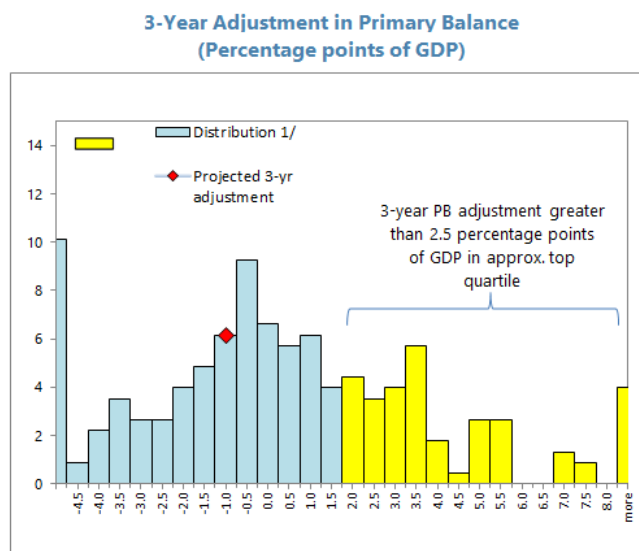


1/ Difference between anticipated and actual contributions on debt ratios.

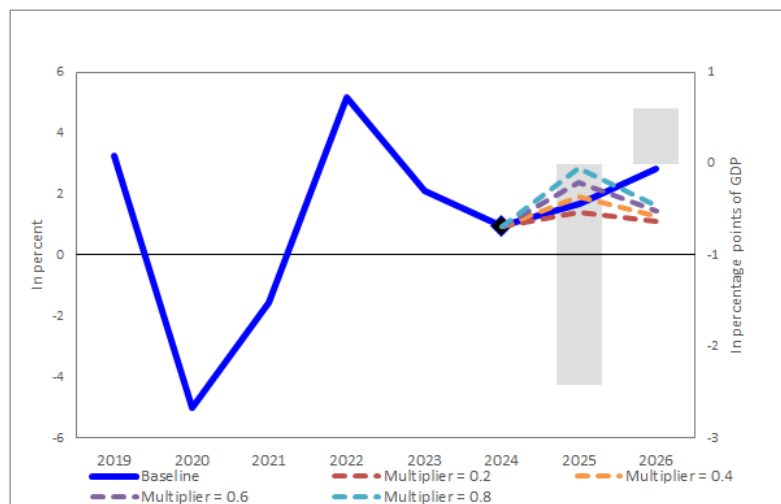
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Vanuatu: Realism Tools

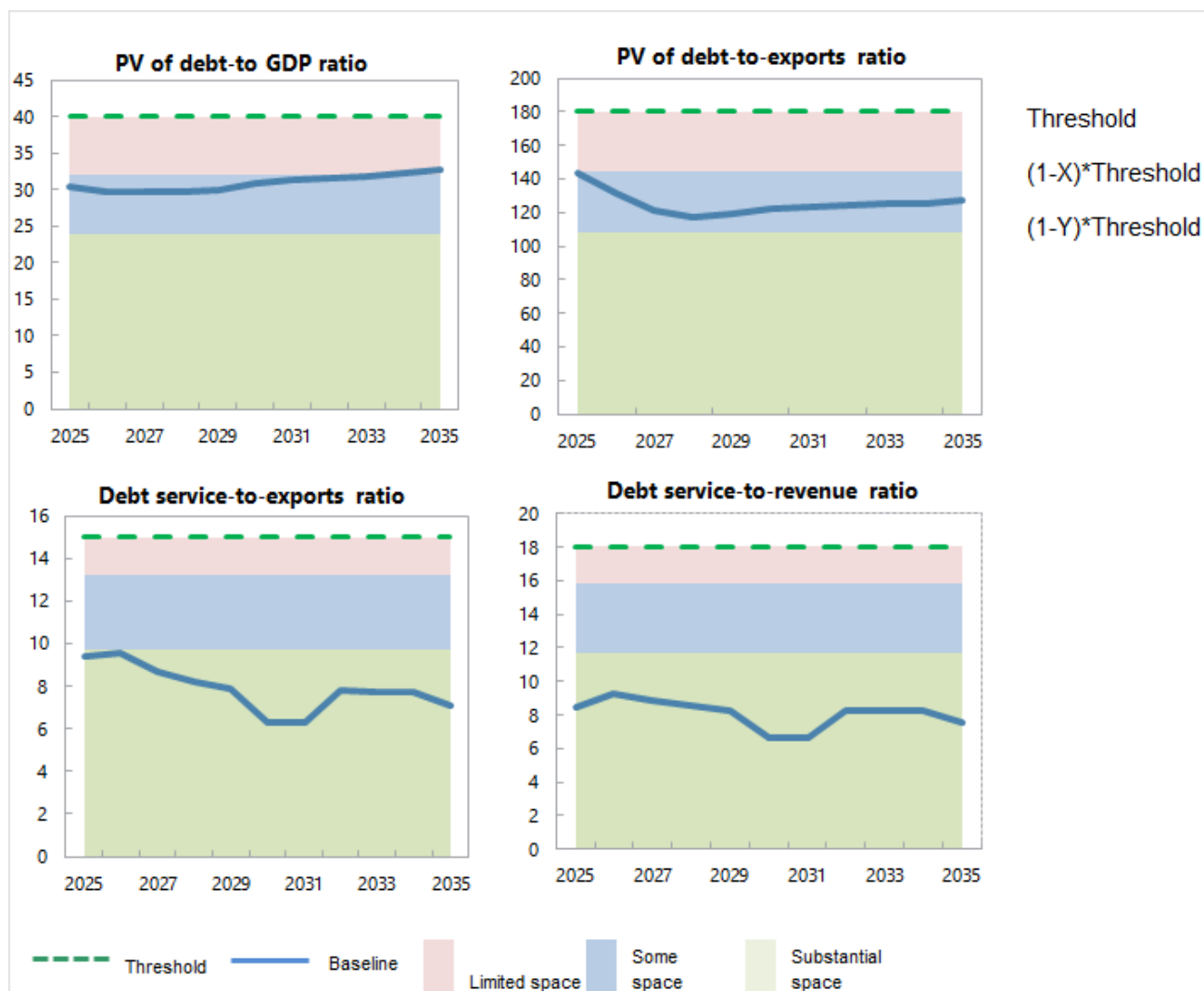


1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

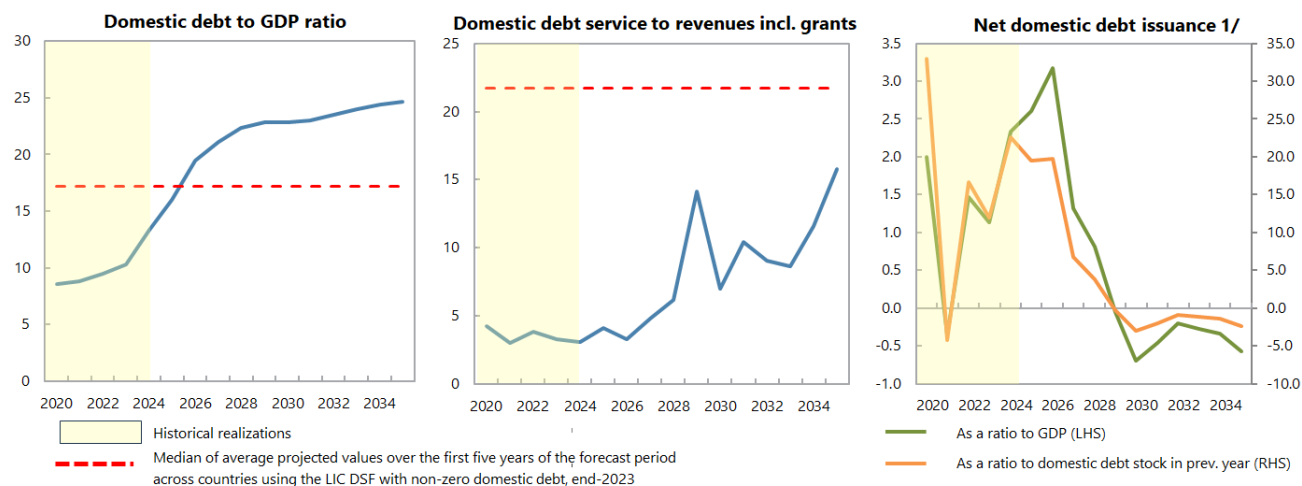
Figure 5. Vanuatu: Qualification of the Moderate Category, 2025-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Vanuatu: Indicators of Domestic Debt, 2020-2035
(Percent)



| Borrowing Assumptions (average over 10-year projection) | Value |
|---|-------|
| Shares in new domestic debt issuance | |
| Medium and long-term | 100% |
| Short-term | 0% |
| Borrowing terms | |
| Domestic MLT debt | |
| Avg. real interest rate on new borrowing | 5.7% |
| Avg. maturity (incl. grace period) | 8 |
| Avg. grace period | 6 |
| Domestic short-term debt | |
| Avg. real interest rate | 2.3% |

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.



VANUATU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

September 8, 2025

Prepared By

The Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS _____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS _____ 4

FUND RELATIONS

(As of August 12, 2025)

Membership Status: joined September 28, 1981; Article VIII

General Resources Account:

| | SDR Million | Percent Quota |
|---------------------------|-------------|---------------|
| Quota | 23.80 | 100.00 |
| Fund holdings of currency | 19.61 | 82.38 |
| Reserves tranche position | 4.20 | 17.63 |

SDR Department:

| | SDR Million | Percent Quota |
|----------------------------|-------------|---------------|
| Net cumulative allocations | 39.08 | 100.00 |
| Holdings | 16.4 | 41.98 |

Outstanding Purchases and Loans: None.

Latest Financial Arrangements:

Outright Loans:

| <u>Type</u> | <u>Date of Commitment</u> | <u>Date Drawn/Expired</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|-------------|-------------------------------|-------------------------------|--|---------------------------------------|
| RCF | Jun 05, 2015 | Jun 15, 2015 | 8.50 | 8.50 |
| RFI | Jun 05, 2015 | Jun 08, 2015 | 8.50 | 8.50 |

Projected Payments to the Fund ^{1/}

(SDR Million; based on existing use of resources and presenting holdings of SDRs)

| | Forthcoming | | | | |
|------------------|--------------------|-------------|-------------|-------------|-------------|
| | 2025 | 2026 | 2027 | 2028 | 2029 |
| Principal | | | | | |
| Charges/Interest | 0.34 | 0.67 | 0.67 | 0.67 | 0.67 |
| Total | 0.34 | 0.67 | 0.67 | 0.67 | 0.67 |

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative: Not applicable

Implementation of Catastrophe Containment and Relief: Not applicable

Exchange Rate Arrangements

Vanuatu's de jure exchange rate arrangement is an adjustable peg. Currently, the exchange rate of the vatu is linked to a transactions-weighted (trade and tourism receipts) basket of currencies. The weights and composition of the basket, which are not publicly disclosed, are adjusted periodically. The Reserve Bank of Vanuatu (RBV) quotes daily buying and selling rates for the vatu against the U.S., Australian, and New Zealand dollars; the euro; the U.K. pound; and the Japanese yen. The rate in terms of the U.S. dollar as of August 12, 2025 was VT 121.95 per U.S. dollar. The de facto exchange rate arrangement is classified as "other managed," as the composite weights are not disclosed and cannot be confirmed. Vanuatu has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system that is free of restrictions on making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultation

Vanuatu is on a 12-month consultation cycle. The previous Article IV consultation mission took place over June 10 – June 21, 2024, and the consultation was concluded on August 28, 2024 (Country Report No. 24/278).

OFC Assessments

The most recent Offshore Financial Center Module II Assessment, conducted by MFD, was concluded in May 2006.

Safeguards Assessment

The first safeguards assessment of the RBV was completed in October 2016 in connection with emergency financing received in 2015. The assessment found that the RBV has a recognized accounting framework and publishes annual financial statements, albeit with some delay. It also identified several weaknesses in its governance arrangements, autonomy, transparency, and audit mechanisms. Recommendations included: (i) drafting amendments to the Reserve Bank of Vanuatu Act to align it with leading practices for central banks; (ii) establishing an Audit Committee; (iii) outsourcing internal audit services to an independent international audit firm; and (iv) formulating a recapitalization plan. The RBV received technical assistance on the recapitalization framework and appointed a Chief Risk Officer. That said, the absence of an audit committee and an internal audit function continue to present risks to the RBV's control environment. Furthermore, the RBV's plans to draft relevant amendments to the RBV Act in line with the 2016 safeguards recommendations have not materialized. Instead, the Parliament enacted, in June 2022, amendments to the RBV Act that further deteriorate the RBV's autonomy and governance arrangements. The authorities committed to repeal the 2022 amendments to the RBV Act in 2023 and continue their efforts.

Technical Assistance

Technical assistance on macroeconomic analysis and framework, banking regulation and financial sector supervision, and government finance statistics has been provided mainly through PFTAC.

Resident Representative

The resident representative office for the Pacific Islands, including Vanuatu, was opened in September 2010 in Suva, Fiji. Mr. Neil Saker is the current Resident Representative.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Relations with other IFIs:

- World Bank Group:

http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=VU

- Asian Development Bank:

<https://www.adb.org/countries/vanuatu/main>

- Pacific Financial Technical Assistance Center:

<https://www.pftac.org/content/dam/PFTAC/Documents/Workplans/fy23/Vanuatu.pdf>