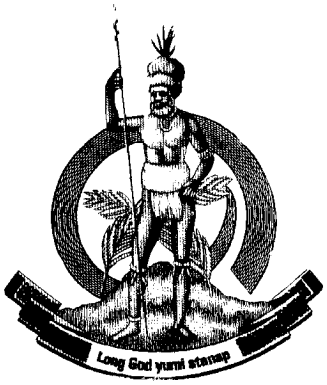


Government

Of the

Republic of Vanuatu

BUDGET 2026

VOLUME 1

FISCAL STRATEGY REPORT

INCORPORATING THE ECONOMIC AND FISCAL UPDATE AND THE BUDGET POLICY STATEMENT

Foreword by the Minister

The Budget 2026 has been finalised in accordance with the Public Finance Management [PFEM] ACT (CAP 244) while the economy is still recovering from the effects of the devastating earthquake that struck Port Vila in December 2024. Despite these challenges, the Government is committed to enhance service delivery while prioritising relief, response and recovery efforts to enhance economic growth over the medium term. These initiatives are being complemented by continued support of development partners, whose contributions to financing the 2026 budget are greatly acknowledged.

Overall estimated GDP growth for 2025 has been revised upward by the Macroeconomic Committee (MEC) in Q2 2025, with the 2025 real GDP growth rate adjusted from 3.6 per cent to 3.7 per cent, rising to 3.9 per cent in 2026) and averaging 4.0 per cent over 2027–2030. This outlook reflects post-17 December 2024 earthquake recovery efforts and rebounding visitor arrivals, despite initial consumer confidence declines, supported by Government and donor initiatives. Agriculture growth is bolstered by strong garden crop performance amid no cyclones in 2024–2025, although growth is offset by weak export crops and animal production. The industry sector is driven by reconstruction and remittances, aided by Government- and donor-financed projects, while the services sector, recovering from Air Vanuatu's 2024 liquidation, gains from stimulus measures, business relocations, and reconstruction-related professional services.

The allocation of the 2026 Budget has been guided by major Government policies, priorities and objectives in the 2026 Budget Policy Statement. The Government is committed to enhancing both the productive and the social sectors for an inclusive and sustainable economic growth whilst improving service delivery. In 2026, the Government revenue (excluding donor financing) has budgeted to receive a total of VT 50,140.9 million, which represents an 11.0 per cent increase from the VT 45,178.6 million revenue budget in 2025. This is primarily due to an anticipated increase in both the Value Added Tax (VAT) and the Honorary Citizenship program. In addition, the Government is expected to receive a total Budget support of VT 3,670.0 million from World Bank (VT 1,700.0 million), Australian Government (VT 766.0 million), Asian Development Bank (VT 616.0 million), European Vanuatu Value Chain (VT 449.0 million) and the New Zealand Government (VT 139.0 million).. The Government will issue new domestic bonds of VT 3,300.0 million and rollover pre-existing domestic bonds worth VT 1,030.6 million, coming to a total bond issuance of VT 4,330.6 million. Therefore, the total Government estimated receipts (excluding donor financing) in 2026 (including budget supports and issuance of domestic bonds) is VT 54,878.0 million which will be used to fund the Government budget appropriation (excluding Donor financing) of VT 54,878.0 million. This represents an increase of 10.3 per cent compared to the 2025 original Government Budget Appropriation of VT 49,772.5 million. This significant budget increase signifies the Government's commitment to enhance service delivery, enhance economic growth and at the same time improve wellbeing for all the people in Vanuatu.

In addition to Government financing, the contributions from major development partners are gratefully acknowledged as they fall in line with the Government's budget policy priorities to enhance economic development and improve the wellbeing of all people in Vanuatu. In 2026, the Government is expected to spend a total of VT 9,270.1 million in development partner assistance (not including Budget Support), which will be funded through both grants (VT 2,475.0 million) and aid-in-kind (VT 6,795.0 million)

Therefore, the total receipts from both the Government and Donor financing in 2026 are estimated at VT 64,148.0 million which will be used to fund the 2026 total Budget Appropriation of VT 64,148.0 million, that is in line with the objective of achieving a balanced budget as outlined in the 2026 Budget Policy Statement.

Vanuatu's debt sustainability is currently assessed as being at a moderate risk of external debt distress; however, the overall risk of debt distress is still assessed as high. Continued support from the Government, multilateral and bilateral partners, development agencies, and domestic market participants remains essential. According to the preliminary debt report, the current debt stock stands at VT 59,755.89 million, equivalent to 41.0 per cent of GDP and is well below the threshold of 55.0 per cent. The debt stock comprises of 28.0 per cent external debt and 13.0 per cent domestic debt. The 2026 debt stock is projected at VT 63,187.0 million and it remains at 41.0 per cent of GDP and is still below the debt to GDP threshold.

The Medium-Term Debt Management Strategy (MTDS) for 2025–2028 outlines the Government's commitment and planning on its borrowings and sourcing of financing to meet payment obligations at the lowest possible cost, while maintaining acceptable levels of risk.

To the people of Vanuatu and esteemed Members of Parliament, it is my greatest honour to announce that the preparation and finalization of the 2026 Budget is consistent with the Principles of Responsible Fiscal Management, as outlined in the Public Finance and Economic Management Act [CAP 244]. I am therefore pleased to present to you the 2026 Budget.





Hon. Johnny Koanapo Nies RASOU (MP)
Minister of Finance and Economic Management
Ministry of Finance and Economic Management

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1 Statement of Fiscal Responsibility

This statement of responsibility affirms that 2026 Budget Appropriation has been duly finalised in accordance with the provisions of the Public Finance and Economic Management Act (CAP 244). It further provides the Fiscal Strategy Report, economic update and fiscal update for the 2025 financial year, together with medium term estimates, will be presented in Parliament concurrently with the first Appropriation Bill for the 2026 financial year.

Statement of Responsibility

The Government is committed to ensuring that the Budget 2026 is implemented and executed in accordance with the Public Finance and Economic Management Act (CAP 244) and the Central Tenders Board Act. Furthermore, the Government will continue to pursue financial reforms, manage Government revenue and expenditure responsibly, and administer state debt prudently in line with international best practices. Through these measures, the Government will ensure that there is sufficient funding to fund the Government programs and activities aimed to improve service delivery and foster economic growth, thus enhancing an overall wellbeing of the people in Vanuatu.

As the Minister and Director General for the Ministry of Finance and Economic Management, it is our honour to confirm that the Budget 2026 has been finalised in line with the Public Finance and Economic Management Act (CAP 244) and that it reflects Government Development objectives, Government Policy Priorities and intentions that were outlined in the 2026 Budget Policy Statement in order to enhance service delivery, boost economic growth and improve well-being for all the people in Vanuatu. This statement also confirms that it will be our ultimate responsibility to ensure that the Government collect sufficient revenue, manage state debt and spend within the2026 budget appropriation.



Hon. Johnny Koanapo Rasou (MP)
Minister of Finance and Economic Management
Ministry of Finance and Economic Management



Mr. Roan Lester SUNGHK
Director General
Ministry of Finance and Economic Management

2 Budget Overview

Vanuatu's 2025 real GDP growth forecast has been revised upward to 3.7 per cent from 3.6 per cent, reflecting robust recovery efforts of the December 2024 earthquake. The agriculture sector is projected to grow by 2.9 per cent, driven by strong subsistence crop performance, though export crops like kava and copra face challenges. The industry sector leads with 8.1 per cent growth, fuelled by post-earthquake reconstruction and infrastructure projects, despite a slight downgrade from 8.9 per cent. The services sector, the economy's largest, maintains 3.9 per cent growth, supported by a tourism rebound though domestic air connectivity issues temper gains. Growth is expected to rise to 3.9 per cent in 2026 and average 4.0 per cent over 2027-2030, driven by sustained reconstruction and tourism recovery.

The Government Budget (excluding donor financing) in 2026 has projected a net operating surplus of VT 5,069.8 million and is expected to receive an estimated revenue (excluding donor financing) of VT 54,878.0 million which will be used to fund the Government Budget Appropriation of VT 54,878.0 million. This represents an increase of 10.2 per cent compared to the 2025 Budget Appropriation of VT 49,772.5 million.

In addition, the Government anticipates to spend VT 9,270.1 million that will be funded by development partners through grants (VT 2,475.0 million) and aid-in-kind (VT 6,795.1 million).

In 2026, the total estimated Government receipts and external financing (Donor financing) is VT 64,148.1 million which will be allocated to fully fund the Government's total budget (Government and Donor financing) appropriation of VT 64,148.1 million.

Table 1, below, shows key economic and monetary indicators for Budget 2026.

Table 1. Key Economic and Monetary Indicators for Budget 2026

Indicator	Year			
	Actual 2023	Actual/ Forecast 2024 [(a)]	Actual/ Forecast 2025 [(a)]	Forecast Budget 2026
(1) Real GDP Growth (%) (b)	5.8	3.8	3.7	3.9
(2) Nominal GDP (VT billions) (b)	141.5	154.7	-	-
(3) Nominal GDP per capita (VT) (b) & (c)	442,988	473,262	-	-
(4) Annual CPI inflation (%) (d)	7.0	-0.7	2.3	-
(5) Current account balance (VT billions)	-1.7	-22.3	-	-
(6) Foreign reserves level (VT billions)	74.98	76.07	75.8	-
(7) Foreign reserves level (months of import cover)	7.2	8.0	8.0	-

Notes

(a) The figure for annual CPI inflation is actual for 2024 and 2025; the figures for real GDP growth and foreign reserves are actual for 2024 and forecast for 2025; the figures for nominal GDP level and nominal GDP per capita are actual for 2024; the figure for the current account balance is actual for 2024.

(b) Real GDP level and real GDP per capita level are not quoted because they do not have significance as published economic variables. This is because they show GDP at historic prices, when prices were lower. Real GDP levels are, however, the critical input to estimating real GDP growth. Real GDP keeps prices constant - in other words, removing price changes (inflation) to show only changes in production volumes (i.e. "real" changes) across a year. For this reason, real GDP growth is the key economic variable here (as opposed to nominal GDP growth).

So, to show GDP levels at any point in time, the latest (current) price levels are published – that is, nominal levels. For GDP growth, on the other hand, the interest is in excluding price changes and focusing solely on volume changes – that is, real changes. So real GDP growth is the variable published.

(c) The figures for the resident population (mid-year) are 319,470 (2023) and 326,818 (2024).

(d) Figures for annual CPI inflation in 2023 and 2024 are December year-to-year change for 2023 and 2024 respectively; figure for annual CPI inflation in 2025 is September year-to-year change.

Sources

(1) (i) 2023 & 2024 - Reserve Bank of Vanuatu, Real GDP Growth
https://www.rbv.gov.vu/index.php/en/gdp-real-growth
(ii) 2025 & 2026 - Macroeconomic Committee (MEC) 2 2025 estimates
https://www.rbv.gov.vu/index.php/en/gdp-real-growth
(2) Vanuatu Bureau of Statistics, GDP 2024 Press Release (14 November 2025)
https://vbos.gov.vu/images/Public_Documents/Gross_Domestic_Product/Current_Report/2024_GDP/Gross_Domestic%20Product_2024_Preliminary_.pdf
(3) ibid.
(4) (i) 2023 & 2024 - Reserve Bank of Vanuatu, Inflation Rate; December to December changes
https://www.rbv.gov.vu/index.php/en/inflation
(ii) 2025 - Vanuatu Bureau of Statistics, Brief Note: Consumer Price Index - September Quarter 2025 (17 December 2025)
https://vbos.gov.vu/images/KPI_Cards/ConsumerPriceIndexSeptember25.pdf
(5) (i) 2023 - Reserve Bank of Vanuatu, Quarterly Economic Review, December 2024
https://www.rbv.gov.vu/images/Quarterly-Economic-Reviews/2024/FinalDec2024QER_13%20June%202025.pdf
(ii) 2024 - Reserve Bank of Vanuatu, Annual Report 2024 (23 October 2025)
https://www.rbv.gov.vu/images/Annual_Reports/2024/Final%20ANNUAL%20REPORT%202024%2007%20Nov.pdf
(6) (i) 2023 & 2024 - Reserve Bank of Vanuatu Annual Report 2024 (23 October 2025)
https://www.rbv.gov.vu/images/Annual_Reports/2024/Final%20ANNUAL%20REPORT%202024%2007%20Nov.pdf
(ii) 2025 - Macro-economic Projection Tool (MPT) 2025, internal DoFT/ RBV document
(7) (i) 2023 & 2024 - Reserve Bank of Vanuatu, Annual Report 2024 (23 October 2025)
https://www.rbv.gov.vu/images/Annual_Reports/2024/Final%20ANNUAL%20REPORT%202024%2007%20Nov.pdf
(ii) 2025 & 2026 - Macro-economic Projection Tool (MPT) 2025, internal DoFT/ RBV document

Tables 2 and 3, overleaf, set out the summary fiscal position. Table 2 shows the recurrent fiscal position – that is, excluding donors. Table 3 summarises the fiscal position inclusive of recurrent and donor funding. The Government Finance Statistics (GFS) tables, displayed on pages 25-25, show more detail.

Table 2. Summary Fiscal Position, Budget 2026 (in VT millions) (excluding donors)

Indicator	Year			
	Actual 2023	Actual 2024	Actual 2025 (to end August)	Forecast Budget 2026
(1) Revenue	36,035.3	43,266.7	34,809.3	50,140.9
(2) Expenses	35,060.2	38,793.0	27,962.6	45,071.2
(3) Current Budget Surplus *or* Deficit: (1) - (2) = (3)	975.1	4,473.7	6,846.7	5,069.7
(4) Capital expenditure	2,032.3	4,669.3	2,429.9	5,918.7
(5) New Financial investment in SoEs	0.0	0.0	0.0	0.0
(6) Net Lending *or* Borrowing: (3) - (4) - (5) = (6)	(1,057.2)	(195.6)	4,416.8	(849.0)
Fiscal Balance is financed by				
(7) Change in Bank Balances	(1,194.4)	2,225.6	4,808.9	0.0
(8) New Loans to SoEs	(111.2)	0.0	0.0	0.0
(9) Change in Domestic Debt	2,186.6	3,882.7	1,287.9	3,300.0
(10) Change in External Debt	(2,434.9)	(1,461.4)	(895.8)	(2,451.0)
(11) Financing Total: (9) + (10) - (7) - (8) = (11)	1,057.3	195.7	(4,416.8)	849.0

Notes

(a) Strictly speaking, (7) Change in Bank Balances is the change in balances of all accounts plus the value of any unpresented cheques.
(b) (3) Budget Surplus and (6) Net Lending are represented by positive values; (3) Budget Deficit and (6) Net Borrowing are represented by negative values (as brackets).
(c) An increase in (7) Bank Balances is represented by a positive value; a decrease in (7) Bank Balances is represented by a negative value (as shown by a figure in brackets).
(d) An increase in (9) Domestic Debt/ (10) External Debt is represented by a positive value; a decrease in (9) Domestic Debt/ (10) External Debt is represented by a negative value (as shown by a figure in brackets).
(e) (11) Financing Total is equal to (6) Net Lending *or* Borrowing, except where there are differences in rounding, but is of opposite sign.

Table 3. Summary Fiscal Position, Budget 2026 (in VT millions) (including donors)

Indicator	Year			
	Actual 2023	Actual 2024	Actual 2025 (to end August)	Forecast Budget 2026
(1) Revenue	46,046.0	52,209.2	39,000.0	52,616.0
(2) Expenses	37,663.7	43,094.8	30,078.8	47,546.2
(3) Current Budget Surplus *or* Deficit: (1) - (2) = (3)	8,382.3	9,114.4	8,921.2	5,069.8
(4) Capital expenditure	7,439.2	10,315.1	3,040.0	5,918.7
(5) New Financial investment in SoEs	0.0	0.0	0.0	0.0
(6) Net Lending *or* Borrowing: (3) - (4) - (5) = (6)	943.1	(1,200.7)	5,881.2	(848.9)
Fiscal Balance is financed by				
(7) Change in Bank Balances *	806.0	1,220.6	6,273.2	0.0
(8) New Loans to SoEs	(111.2)	0.0	0.0	0.0
(9) Change in Domestic Debt	2,186.6	3,882.7	1,287.9	3,300.0
(10) Change in External Debt	(2,434.9)	(1,461.4)	(895.8)	(2,451.0)
(11) Financing Total: (9) + (10) - (7) - (8) = (11)	(943.1)	1,200.7	(5,881.1)	849.0

Notes as per notes for Table 2 above.

3 Economic Update and Medium-Term Prospects

3.1 World Economic Outlook (WEO)

The world economy faces a complex landscape. Emerging markets and developing economies, particularly in Asia, exhibit resilience, with China projected to grow by 4.6 per cent in 2025, bolstered by momentum from 2024 and a fiscal package introduced late that year. Conversely, advanced economies encounter difficulties. The United States is expected to achieve 2.7 per cent growth in 2025, supported by robust consumer spending and a more accommodative monetary policy, though this represents a downward revision from earlier projections. The euro area anticipates a modest acceleration, yet growth remains subdued at 1.0 per cent in 2025, hampered by persistent geopolitical tensions and weak manufacturing output. Overall, the IMF's July 2025 World Economic Outlook Update revises global GDP growth to 3.0 per cent for 2025 and 3.1 per cent for 2026 (from the April forecast of 2.8 and 3.0 per cent respectively), reflecting adjustments to account for stronger trade front-loading, lower US tariff rates, and fiscal expansions.

Table 4. World Economic Outlook, Real GDP (annual growth in percentage)

World Economic Outlook								
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
World Output	**3.4**	**3.5**	**3.3**	**3.0**	**3.1**	**3.1**	**3.1**	**3.1**
Advanced Economies	**3.2**	**1.8**	**1.8**	**1.5**	**1.6**	**1.7**	**1.7**	**1.7**
US Economy	**5.9**	**2.9**	**2.8**	**1.9**	**2.0**	**2.1**	**2.1**	**2.1**
Euro Area	**3.5**	**0.5**	**0.9**	**1.0**	**1.2**	**1.3**	**1.3**	**1.2**
Japan	**1.7**	**1.4**	**-0.2**	**0.7**	**0.5**	**0.6**	**0.6**	**0.4**
Emerging Markets & Developing Economies	**4.0**	**4.7**	**4.3**	**4.1**	**4.0**	**4.0**	**3.9**	**3.9**
China	**3.0**	**5.4**	**5.0**	**4.8**	**4.2**	**3.6**	**3.4**	**3.3**

Source: International Monetary Fund, World Economic Outlook (WEO), July 2025

Advanced economies are forecasted to achieve modest growth of 1.5 per cent in 2025, a slight uptick from previous estimates, with the United States leading at 1.9 per cent, fuelled by strong consumer demand and favourable financial conditions. The euro area, however, is projected to grow at a slower 1.0 per cent, constrained by geopolitical tensions and policy uncertainty. Despite regional improvements, the growth outlook remains uneven, shaped by diverse domestic and external challenges across advanced economies.

Emerging markets and developing economies (EMDEs) are expected to maintain a stable growth rate of approximately 4.1 per cent in 2025 and 4.0 per cent in 2026, showcasing resilience amid global uncertainties. China's growth is anticipated to reach 4.8 per cent in 2025, supported by fiscal measures and a gradual recovery in consumer activity, while India sustains robust growth at 6.4 per cent. Nonetheless, risks from heightened trade policy uncertainty and geopolitical tensions persist, particularly in regions like Latin America and Central Asia, where growth patterns vary widely. Overall, EMDE's growth potential is influenced by both internal dynamics and global economic conditions.

Global inflation is projected to decline gradually, reaching 4.2 per cent in 2025 and 3.6 per cent in 2026, as economies address lingering inflationary pressures. This disinflation reflects a convergence toward target levels in advanced economies, though EMDE may encounter more persistent challenges. Easing commodity prices and moderating wage growth contribute to this trend, yet elevated inflation persists in sectors like services. Central banks remain vigilant, with some maintaining tight policies to counter residual inflationary risks, underscoring the intricate task of managing inflation across diverse economic contexts.

The global growth outlook balances upside and downside risks, posing challenges for policymakers. On the positive side, stronger-than-expected US economic performance, bolstered by effective fiscal stimulus, could enhance global activity. However, significant downside risks loom, including elevated policy uncertainty, geopolitical tensions, and potential trade disruptions that could undermine investment and market stability. Ongoing inflationary pressures might also prompt tighter monetary policies, further complicating the growth path. The balance of risks is tilted to the downside, necessitating vigilant monitoring and adaptable policy responses to navigate this complex environment.

3.2 Regional Economic Outlook (REO)

The Pacific Island Countries (PIC)'s average growth is projected at 3.1 per cent in 2025, slowing slightly to 2.7 per cent in 2026, due to global trade disruptions, especially U.S. tariffs impacting tourism, remittances, and exports. Tourism-dependent economies like Fiji face downgraded forecasts (2.8 per cent in 2026), as weak global demand hits visitor numbers. Papua New Guinea (PNG) is expected to stand out with 4.6 per cent growth in 2025, driven by the reopening of the Porgera gold mine, followed by a moderation to 3.5 per cent in 2026.

Regional inflation is expected to ease to 4.1 per cent in 2025 and 3.3 per cent in 2026, reflecting global trends. Tariff pass-through effects and global commodity volatility continue to affect import prices, notably in PNG, recording 5.5 per cent in 2025, and in Nauru, 7.3 per cent in 2025.

Projected economic growth in Australia is expected to grow to 1.6 per cent in 2025 and strengthening to 2.1 per cent in 2026. Meanwhile New Zealand's growth is forecasted to reach 1.4 per cent in 2025, with further improvement to 2.7 per cent in 2026.

Risks and vulnerabilities can pose hindrances to the PICS economies. These include escalating U.S.-China trade tensions, higher tariffs, and a global policy shift that threatens trade, tourism, and the public finances in PIC. Climate and natural disasters remain persistent structural threats, especially for small island states like Vanuatu, Tuvalu, and Kiribati.

Table 5. Regional Economic Outlook, Real GDP (annual growth in percentage)

Country	2022	2023	2024	2025	2026	2027	2028	2029	2030
Pacific (excl Aus&NZ)	***2.1***	***3.0***	***3.6***	***3.1***	***2.7***	***2.3***	***2.2***	***2.0***	***2.0***
Fiji	19.8	7.5	3.7	2.6	2.8	3.2	3.2	2.1	2.1
Kiribati	4.6	2.7	5.3	3.9	3.2	2.5	2.2	1.8	1.6
Marshall Islands	-1.1	-3.9	2.8	2.5	4.1	2.4	1.9	0.7	0.7
Micronesia	-2.9	0.5	0.7	1.1	1.5	0.8	0.7	1.8	1.8
Nauru	3.0	0.6	1.8	2.0	1.6	1.7	1.8	2.2	2.2
Palau	-0.8	1.4	7.1	5.7	3.5	2.7	2.3	2.2	2.2
Papua New Guinea	5.7	3.8	3.7	4.6	3.5	3.1	3.1	3.1	3.1
Samoa	-5.4	9.2	9.4	5.4	2.6	2.0	2.0	2.0	2.0
Solomon Islands	2.4	2.7	2.5	2.7	2.8	2.9	3.0	3.0	3.0
Tonga	-2.3	2.1	2.1	2.7	2.3	1.8	1.6	1.2	1.2
Tuvalu	-2.4	7.9	3.3	2.8	2.3	2.2	2.0	1.9	1.7
Vanuatu	5.2	2.1	0.9	1.4	2.1	2.5	2.2	2.2	2.2
Australia	4.1	2.1	1.0	1.6	2.1	2.3	2.3	2.3	2.3
New Zealand	2.9	1.8	-0.5	1.4	2.7	2.7	2.3	3.2	3.2

Source: IMF & Staff calculations

3.3 Vanuatu Economic Outlook (VEO)

The Vanuatu economy shows resilience amid both domestic and international challenges. In the second quarter of 2025, the projected real GDP growth for the year was revised upward to 3.7 per cent from 3.6 per cent in the first quarter of 2025, similar to the 3.8 per cent growth experienced in 2024. The economic outlook has been significantly affected by developments since the December 2024 earthquake. Despite an initial decline in confidence immediately following the earthquake, recovery efforts by the Government and donor partners, along with increasing visitor arrivals, have boosted economic activity into the second half of 2025.

The Services sector continues to be the largest sector in Vanuatu's economy and is forecast to experience stronger growth in 2025 as it recovers from the liquidation of Air Vanuatu in 2024 and the substitution in international services by overseas airlines. The sector is also expected to benefit from the rollout of the Government's post-earthquake stimulus package, which will help support consumption in the domestic economy. For instance, the Vanuatu Tourism Office (VTO) has been allocated substantial additional funding to support its marketing initiatives and recovery activities. Further, the post-earthquake relocation of businesses outside of Port Vila's Central Business District is expected to boost the real estate sector, while professional services such as architecture and engineering will benefit from building assessment and reconstruction activities.

The Industry sector's performance was also revised upwards in Q2 2025 to reflect post-earthquake demolition and reconstruction efforts, strong remittance flows, and infrastructure spending under the implementation of the Government's 2024 Capital Budget.

The Agriculture sector remains a key driver of the economy, with a strong performance in subsistence crop production forecasted due to a lack of cyclones in the 2024-25 season. Growth in this subsector is partially offset by weak performance in key exported crops such as kava, cocoa, and coffee, as well as in animal production due to a lack of beef exports.

Inflation has been successfully brought under control, decreasing from a peak of 14.4 per cent in 2023 to 0.1 per cent during the June 2025 quarter, which is within the Reserve Bank of Vanuatu's target range of 0-4 per cent. This achievement in controlling inflation provides a stable environment for businesses and consumers, supporting economic activity.

The medium-term outlook remains optimistic, with growth expected to increase to 3.9 per cent in 2026 before averaging at 4.0 per cent over 2027-2030. This positive trajectory reflects confidence in Vanuatu's economic fundamentals and its capacity to leverage opportunities across various sectors.

Table 6. DOMESTIC ECONOMIC OUTLOOK, Real GDP (annual growth in percentage change)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agriculture, Fishing and Forestry Sector	2.3	4.0	2.3	3.9	2.9	3.1	3.4	3.5	3.2	3.3
Industry Sector	-0.4	-0.8	14.9	11.0	8.1	9.2	6.3	3.9	4.1	4.0
Services Sector	0.2	5.8	6.8	2.6	3.9	3.7	3.9	3.7	3.9	4.3
Real GDP Growth*	-1.2	5.6	5.8	3.8	3.7	3.9	4.0	3.9	4.1	4.2

Source: *Vanuatu Bureau of Statistics and Macroeconomic Committee (MEC) 2 2025 Estimates*

Note: Blue highlighted figures represent published real GDP growth statistics, orange highlighted figures represent MEC real GDP growth estimates, and figures from 2026 onwards are MEC 2 2025 forecasts.
*Real GDP growth statistics for 2021 to 2024 will deviate from those published in previous versions of the Budget Book due to a methodological change whereby chain-linking, rather than a 2006 base year, was used to calculate real GDP figures. The MEC 2 2025 real GDP growth forecast was agreed prior to the implementation of this methodological change. This means that the 2025 estimate and forecasts for 2026 – 2030 are subject to methodological review and approval by MEC.

3.3.1 Agriculture, Forestry, and Fishing Sector

The Agriculture, Fisheries, and Forestry sector is projected to grow by 2.9 per cent in 2025, revised upward from the initial forecast of 2.4 per cent. The sector remains pivotal to Vanuatu's economic landscape, contributing significantly to both subsistence and commercial activities. Despite facing multiple challenges, including the Coconut Rhinoceros Beetle threat, labour shortages, and natural disaster risks, the sector shows resilience with mixed but generally positive developments across sub-sectors.

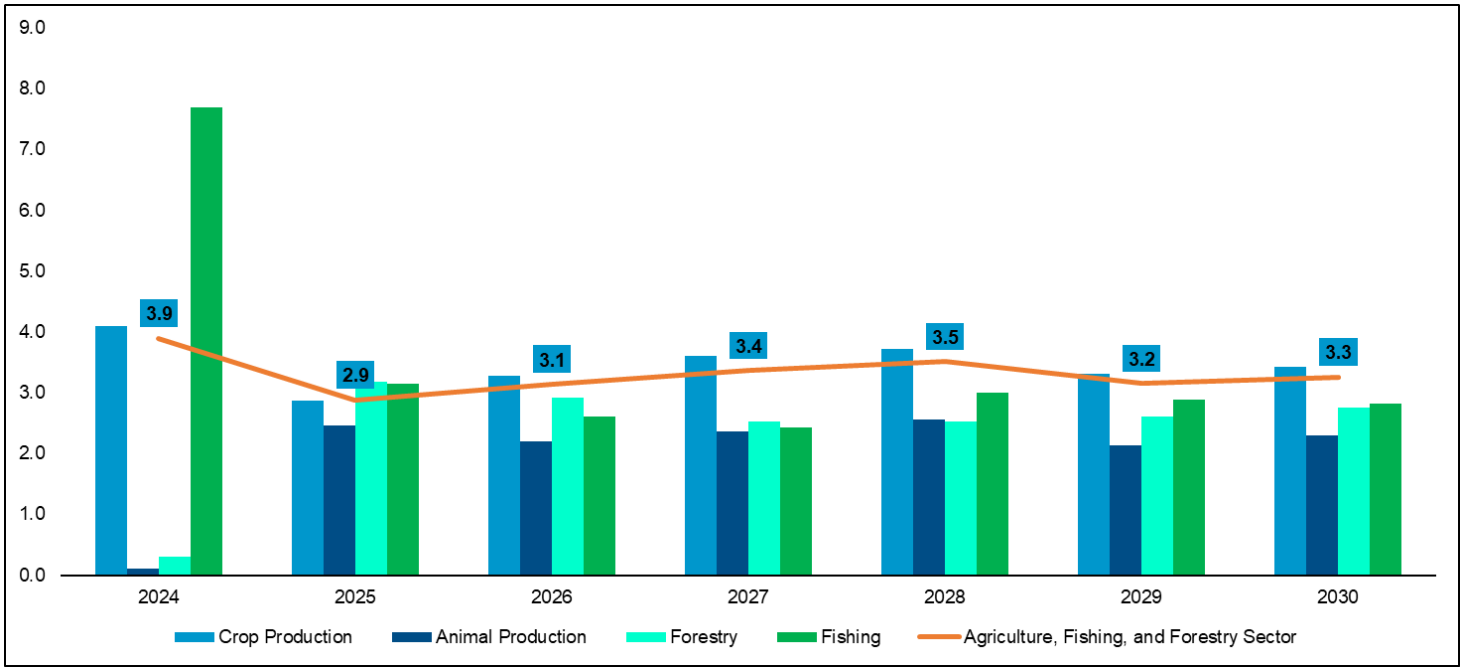
Commercial Crop Production continues to face varied challenges and opportunities across different commodities. Kava production in the commercial sector is projected to grow by 3.0 per cent in 2025, down from the initial forecast of 3.5 per cent, reflecting quality deterioration and impacts from United States tariffs. Cocoa production demonstrates strong performance with 15.0 per cent growth projected for 2025, though export tonnage has fallen on both year-on-year and quarter-on-quarter bases. The sub-sector benefits from ongoing rehabilitation efforts and the installation of grafted plants. Coconut production in the commercial sector is expected to achieve modest 1.0 per cent growth, supported by solid demand from Asian markets despite previous declines. Copra production continues to face challenges with a projected reduction in real output of 1.5 per cent though prices have improved with deflator adjustments from 0.1 per cent to 0.5 per cent. Export volumes remain weak despite price improvements.

Subsistence Crop Production shows exceptional performance, with garden and food crops achieving 2.9 per cent growth, significantly benefiting from the absence of cyclones since 2023. This strong performance reflects the sector's resilience when not affected by natural disasters.

Animal Production demonstrates steady performance with beef production showing 2.5 per cent growth despite challenges from abattoir equipment failures that have prevented exports and limited the sector to domestic supply only. The Government continues to support the sector through pasture improvement programmes, cattle restocking, and small ruminant production initiatives.

The Forestry sub-sector benefits from solid domestic demand alongside improved labour availability from returning seasonal workers, with 3.2 per cent growth projected for 2025. This performance reflects the sector's ability to adapt to changing market conditions and labour availability. The Fishing sub-sector maintains 3.1 per cent growth despite challenges from high fuel costs that make fresh fish unaffordable for low-income earners. Local fish prices have increased from 1,200 Vatu to 1,500 Vatu per kilogram, with deflator adjustments from 1 per cent to 1.5 per cent reflecting these local market price changes.

Figure 1: Growth of Agriculture, Forestry, and Fishing Sector per cent by subsectors



Source: *Macroeconomic Committee (MEC) estimates*

3.3.2 Industry Sector

The Industry sector continues as the fastest-growing sector of the economy, with 8.1 per cent growth projected for 2025, revised from the initial forecast of 8.9 per cent. This strong performance is driven by post-earthquake reconstruction activities and the implementation of over 10 billion Vatu worth of Government capital projects rolled over from 2024.

Construction activities show strong momentum with 10.8 per cent growth projected for 2025, revised from the initial Q1 2025 forecast of 13.2 per cent. With uncertainty to when insurance payouts will start, it is anticipated that the earthquake reconstruction works in the CBD will be delayed to 2026 and 2027. However, the Building Construction sub-sector is still expected to grow by 11.0 per cent, with project activity extending beyond the 2024 Capital Budget and growth seen in quarter one from private sector credit to support construction projects. Renovation and Repair Activities demonstrate exceptional growth at 13.0 per cent, driven primarily by earthquake recovery efforts and necessary repairs to damaged infrastructure. This reflects the immediate demolition and reconstruction needs following the December 2024 earthquake, which is supported by both the Government and the private sectors' commitment to rebuilding damaged facilities.

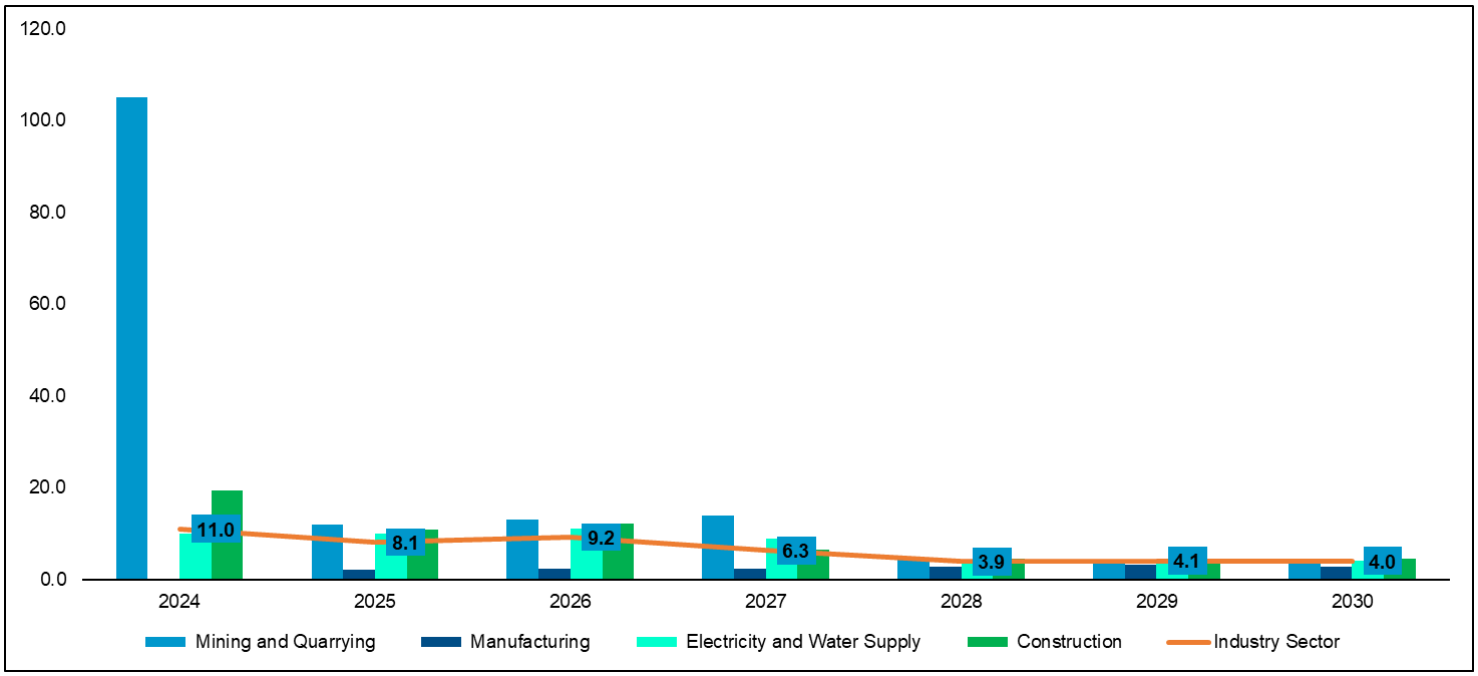
Major infrastructure projects driving growth include the Pentecost Road, Vanuatu Climate Resilient Transport Project Phase 2 (South Santo Road), and Tanna Road Phase 3. The Efate Ring Road Rehabilitation Project and Ambae Road projects have recently commenced in the second quarter of 2025, providing additional momentum for the Construction sector growth. Quarrying activities also show strong growth at 12.0 per cent in 2025, supported by ongoing construction projects and infrastructure development needs.

The Manufacturing sub-sector projects 2.2 per cent growth in 2025, revised from the initial forecast of 2.4 per cent, reflecting mixed performance across different manufacturing activities. The projection for Food Manufacturing growth was reduced from 3.0 per cent to 2.5 per cent to reflect Vanuatu Brewing Limited's (VBL) slowdown in its production

capacity due to equipment damages from the earthquake. Handicraft Production has been revised to 8.5 per cent growth due to the cessation of cruise ship visits to Port Vila and the closure of the Malampa Handicraft Centre.

The Electricity and Water Supply sub-sector demonstrates robust 10.0 per cent growth in 2025, revised upward from the initial forecast of 9.0 per cent. This growth is driven by increased demand from demolition and reconstruction activities, progressive tourism recovery, and growing household demand for solar energy, particularly in rural areas with the trend extending to urban areas.

Figure 2: Growth of Industry Sector per cent by subsectors



Source: *Macroeconomic Committee (MEC)*

Note: Large fluctuations in real GDP growth rates for the Mining and Quarrying Sector are largely driven by the small size of this sector in Vanuatu's economy, causing small changes in levels to result in volatile YoY growth rates.

3.3.3 Services Sector

The Services sector maintains its 3.9 per cent growth projection for 2025, demonstrating resilience despite the impacts of the December 2024 earthquake. The sector benefits from better-than-expected visitor arrivals, Government stimulus measures, loan grace period to end in June and the gradual recovery of business activities following the reopening of Port Vila's Central Business District. The reconnection of online domestic connectivity is a matter of urgency which should amplify tourism activities in the remote islands when the reconnection is fixed.

Visitor arrivals have significantly exceeded expectations, with February and March 2025 recording exceptional 58.5 and 23.5 per cent annual growth, respectively. This strong performance reflects the successful entry of new airline carriers including Qantas and Jetstar, Government tourism marketing initiatives funded through the stimulus package, and the influx of recovery workers following the earthquake.

Accommodation and Food Services growth has been revised to 11.2 per cent in 2025 from the initial forecast of 14.7 per cent, primarily due to challenges with domestic air connectivity that continue to affect tourism to Santo, Tanna, and other outer islands. Wholesale and Retail Trade activities show strong performance supported by Government stimulus

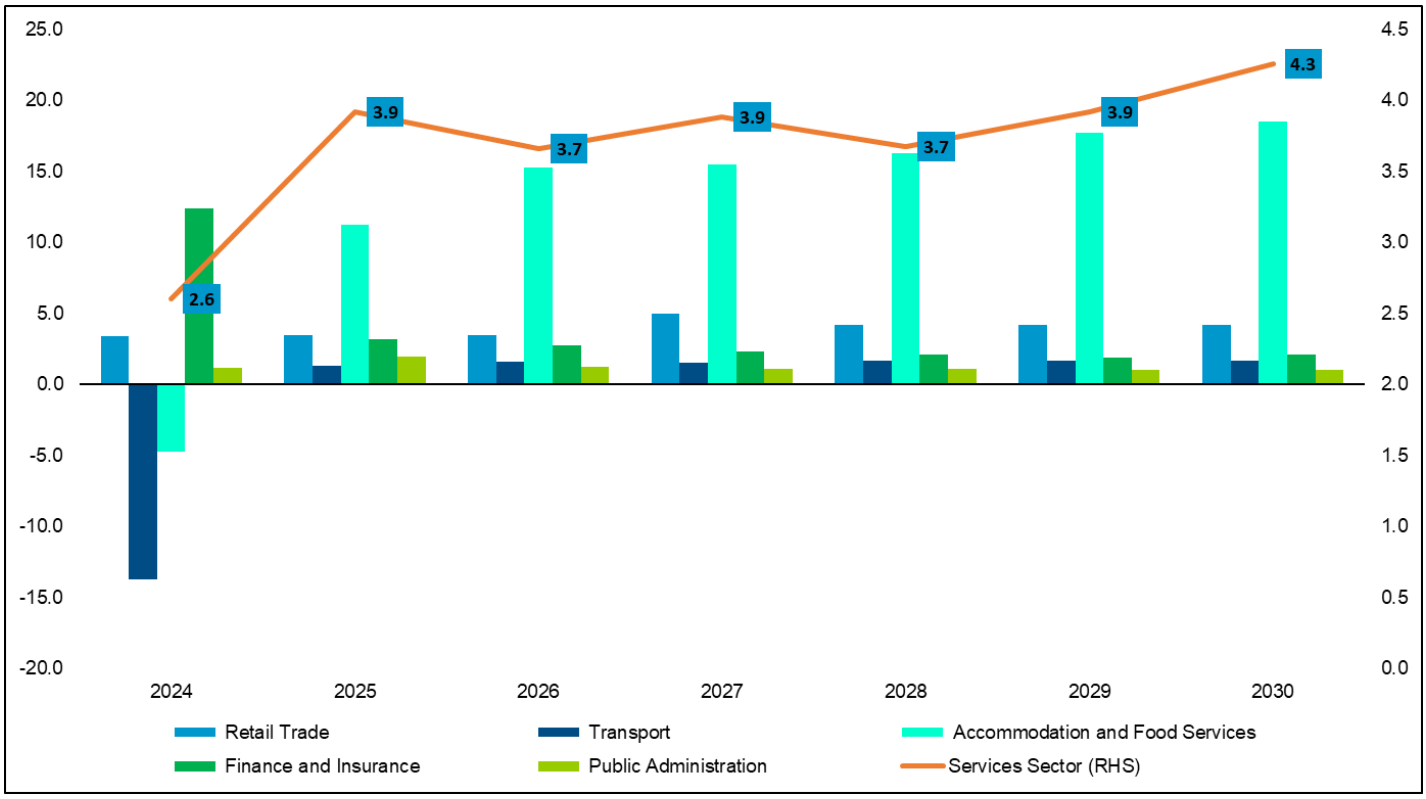
measures and improved economic conditions. The combined Wholesale and Retail Trade sector projects 3.3 per cent growth in 2025, supported by private sector credit, tourism related activities and remittances, and the rollout of the stimulus measures, thus yielding strong Value Added Tax collections.

The Transport sub-sector maintains its 1.3 per cent growth projection in 2025, though specific sub-sectors show different performance patterns. Air Transport is projected to grow by 0.5 per cent in 2026, with deflator adjustments from 2.2 per cent to 3.5 per cent reflecting the acquisition of new twin otter aircraft and increases in domestic airfare prices.

Real Estate activities continue to show strong performance, reflecting new subdivisions at North Efate, partly related to the Lelepa cruise project, and relocation impacts following the earthquake. Professional, Scientific and Technical Services projects a strong 7.3 per cent growth in 2025, revised upward from the initial forecast of 6.5 per cent. This growth is driven by increased demand for engineers, surveyors, and specialists required for reconstruction activities and the implementation of rolled-over capital projects of 2025 and 2026. The sector benefits from both earthquake recovery needs and planned infrastructure development.

Public Administration shows 2.0 per cent growth, supported by the Government's improved fiscal position and increased donor support following the earthquake.

Figure 3: Growth of Services Sector per cent by subsectors



Source: *Macroeconomics Committee (MEC)*

3.4 Monetary Sector Development

The Reserve Bank of Vanuatu (RBV) has maintained a tight monetary policy stance since March 2025, by keeping the policy rate at 2.75 per cent. This reflects the RBV's commitment in containing inflationary pressures, protecting official foreign reserves and supporting macroeconomic stability in the wake of external and domestic shocks. Consequently, the

Capital Adequacy ratio (CAR), Statutory Reserve Deposit (SRD) ratio and Liquid Asset Ratio (LAR) were maintained at 12.0 per cent, 5.50 per cent and 5.0 per cent, respectively. Moreover, the amount of RBV notes issued in the Open Market Operations (OMO) remained at VT1.9 billion per month. The Bank's Imports Substitution and Export Finance Facility (ISEFF); and the Disaster Reconstruction Credit Facility (DRCF) remained active.

In terms of monetary policy targets, official foreign reserves remained well above the RBVs minimum threshold of 4 months. At the end of June 2025, the level of official foreign reserves remains sufficient to cover 8.0 months of imports. Annual inflation remains within the RBV's target range of 0-4 per cent, recording 0.1 per cent in the second quarter of 2025.

The annual growth in money supply over the first half of 2025 reached 13.7 per cent, reflecting upward trends in both net foreign assets (NFA) (+19.7%) and domestic credit (+6.1%). Growth in NFA was largely driven by net inflows of official foreign reserves recorded by both the RBV and Commercial Banks. The bulk of these foreign reserves were via donor inflows and net investment income earned by the RBV. The annual growth in domestic credit was attributed to an expansion in private sector credit (+8.7%) to support economic recovery. The offset was the decrease (-25.8%) in the Government's net credit position vis-à-vis the banking system. The improvement in the net credit position of the Government was a result contributed by the accumulation of Government deposits and the slowdown in domestic borrowings via both the RBV and Commercial Banks during the first half of 2025. Money growth is projected to remain solid until the end of 2025 to support economic recovery.

Commercial Banks in Vanuatu remain well capitalized, profitable, highly liquid and sound. At the end of the June 2025 quarter, the Capital adequacy Ratio (CAR) reached 21.4 per cent; well above the minimum threshold of 12.0 per cent. The Banking industry recorded a profit of VT3.0 billion (before tax and provisions); this is an increase of 19.6 per cent relative to the June 2024 quarter. The majority (88.3%) of Commercial Bank's lending portfolios are performing. The level of non-performing loans has declined (-22.6%) relative to the June 2024 quarter, owing to Banks persistently improving their recovery strategies. The Liquid Asset Ratio (LAR) recorded 47.7 per cent at the end of July 2025, way above the minimum threshold of 5.0 per cent. This indicates that the banking industry has sufficient funds to finance economic activities, however the level of liquidity continues to be unevenly distributed amongst the industry. Financial sector soundness and stability is expected to be maintained in the short to medium term.

3.5 Inflation

Annual inflation reverted to the RBVs target range of 0-4 per cent, recording 0.1 per cent during the June 2025 quarter. This follows consecutive decreases over the past three quarters, September 2024 quarter (-1.9%), December 2024 quarter (-0.7%) and March 2025 quarter (-0.6%). Deflation during the last two quarters of 2024 until the second quarter of 2025, reflected high peaks experienced in 2023, the lagged effects of the decline in international commodity prices, the decline in inflation of Vanuatu's main trading partners, the absence of domestic supply shocks (cyclones) in 2024 and the appreciation of the Vatu against the USD. The main contributors to the annual increase in prices were: food (+0.7%), health (+8.2%), education (+0.9%), transportation (0.7%) and miscellaneous goods and services (+1.8%). In turn, these changes were mainly caused by higher prices for: meals and takeaway food, fruits and vegetables, medical testing, private school fees, vehicle repairs and services, and personal accessories.

In terms of outlook, inflation is anticipated to gradually pick up and will remain within the RBV's inflation target range of 0.4 per cent until the end of 2025. The main assumptions are; post-earthquake recovery is expected to stimulate economic activity and contribute to rising prices, higher import costs associated with global trade uncertainties and other domestic

factors that could also influence inflation dynamics. These other domestic factors are the implementation of the Governments capital budget, emerging inflation from the social sector (in particular private health and education services), domestic labour market constraints and delays in the domestic airline services coming back on stream.

3.6 Balance of Payments

Following the deterioration in the current account balance (CAB) in 2024, owing to the Air Vanuatu voluntary liquidation, rising import cost and delays in infrastructure projects, the CAB deficit is expected to have slightly improved in the first half of 2025, owing to recovery in tourism, remittances, inflows of funds for post recovery and infrastructure projects and inflows via citizenship by investment. The CAB deficit is expected to continue to narrow until the end of 2025 although this is expected to be partially offset by substantial imports for post recovery reconstruction. The RBV's official foreign reserves recorded VT 75,872 million in June 2025, higher by 8.0 per cent relative to a year ago. The bulk of these inflows was accounted for by Government development assistance and RBV's inward receipts. Outflows of official foreign reserves were mainly for Government external loan repayments, outflows to commercial banks, and RBV's external payments. The current level of official foreign reserves is estimated to cover at least 8.0 months of imports in June 2025 and is expected to cover around 8.0 months of imports at the end of 2025. However, downside risks remain such as persistent high import payments, exchange rate fluctuations and unscheduled external debt repayments.

3.7 Exchange Rate Developments

The Vatu has appreciated against the USD across the February to June 2025 period, as the changes in the US trade policies (tariffs) have caused the demand for USD to plummet and depreciate against major currencies including the Vatu. At the end of June relative to June 2025, the Vatu had appreciated against the USD, AUD, NZD, by 0.8 per cent, 2.4 per cent and 1.2 per cent, respectively, but had depreciated against the EURO by 8.7 per cent. On average the Vatu appreciated against both the USD and AUD by 0.1 per cent and 2.3 per cent, respectively. While the appreciation of the Vatu can help control inflation and reduce import costs, inflows via tourism, remittances, and exports are expected to be reduced. Overall, Vanuatu's exchange rate peg has helped provide a nominal anchor and dampen imported inflation.

4. Fiscal Update and Projections

4.1 Budget Balance

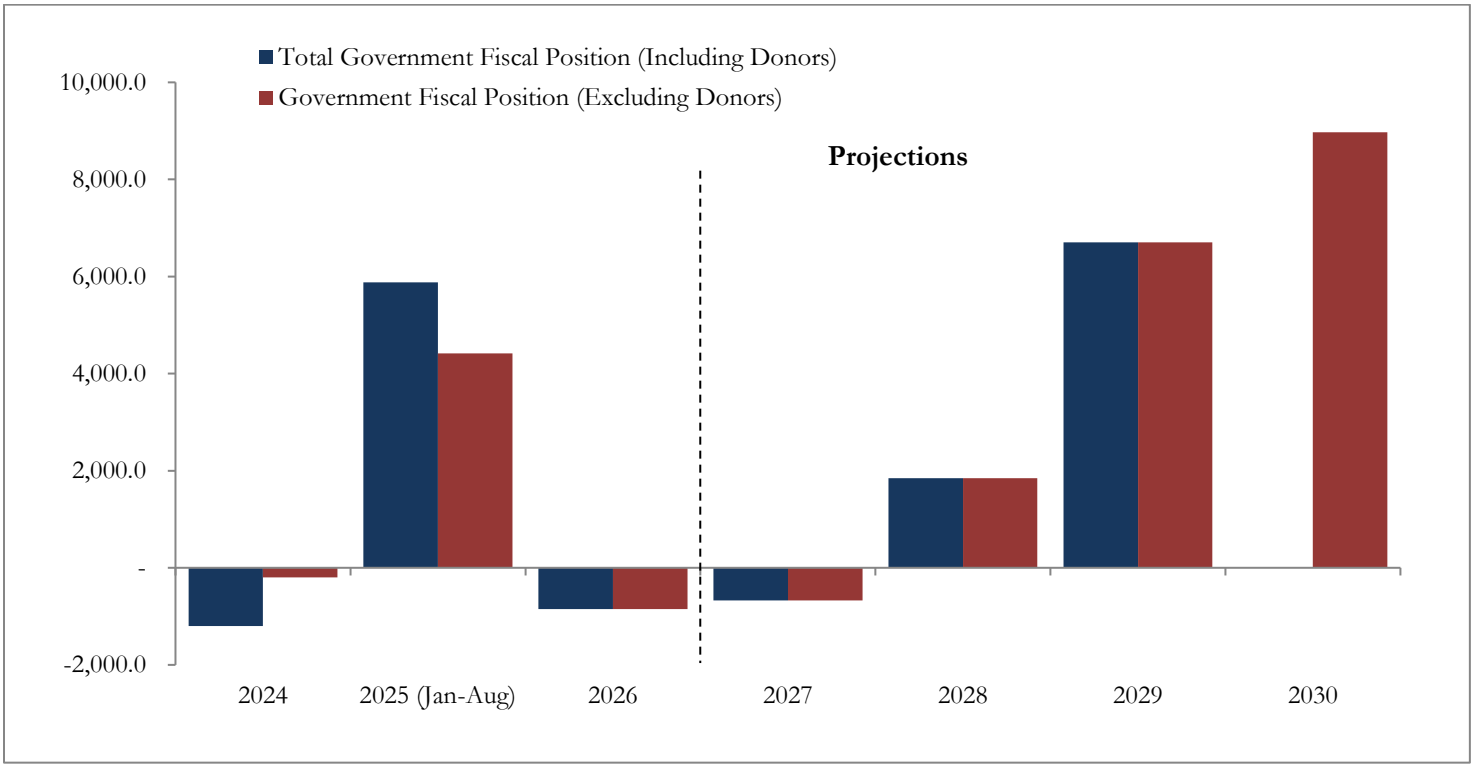
The Government's net operating position excluding donors financing has recorded a net operating surplus of VT 6,846.8 million at the end of August in 2025 financial year. Including net acquisition of nonfinancial assets of VT 2,429.9 million, the Government has recorded an overall fiscal surplus of VT 4,416.9 million at the end of August 2025.

In 2026, the Government's net operating position excluding donor financing is estimated to be a surplus of VT 5,069.8 million and will remain positive with surplus over the medium term. In contrast, the development financing is estimated to operate at a balanced net operating budget with no external loan drawdown appropriation in 2026 financial year.

In aggregate, the Government's revenue position (including donor financing) is estimated to receive VT 64,148.1 million, which will fund the total Government's Budget Appropriation of VT 64,148.1 million to achieve a balanced budget in 2026. The objective of achieving a balanced budget will also be maintained over the medium term for prudent fiscal management.

On this note, the Government will continue to ensure that fiscal discipline and responsibility are maintained, to enhance sound public financial management while improving service delivery and economic development.

Figure 4: Overall Budget Balance (in VT millions)



Source: *Ministry of Finance and Economic Management*

4.2 Government Revenue – January to August 2025

The Government revenue collection (excluding Donor Financing) at the end of August has performed well above the budget forecast of VT 28,897.9 million, recording VT 34,809.3 million[1]. This represents 77.0 per cent of the budget target of VT 45,178.6 million and is 34.0 per cent higher than the VT 25,977.1 million that was collected during the same period last year.

Tax collection continues to be a substantial source of the Government revenue recording VT 19,188.9 million at the end of August. VAT, the largest individual tax revenue stream, brought in VT 10,680.1 million of revenue at the end of August. This represents 77.8 per cent of the annual budget target of VT 13,730.0 million[2] and is 9.3 per cent higher than the VT 9,771.1 million that was collected during the same period in 2024.

[1] Total revenue collections at the end of August of VT 34,809.3 million includes the Budget support from World Bank of VT 2,443.0 million that was received in February.
[2] The VT 13,730.0 million budget for net VAT collections is the VAT expected to be received by the Government (VT 14,137.5 million) minus the VAT to be paid by the Government (VT 407.5 million).

Taxes on international trade and transactions, constituting import and export duties recorded a total of VT 2,808.4 million at the end of August. This comprises 56.9 per cent of the budget target of VT 4,937.8 million and it is 4.4 per cent more than the VT 2,689.8 million that was collected during the same period last year.

Excise tax collection has been the third main source of Government tax revenue at the end of August collecting a total of VT 2,206.6 million, which is 58.9 per cent of the budget target of VT 3,747.2 million. This is 1.3 per cent lower than the VT 2,236.1 million that was collected during the same period last year.

Revenue from property taxes totalled VT 577.1 million at the end of August, which represents 81.2 per cent of its 2025 budget target of VT 710.3 million.

At the end of August, collections of other Government revenue (predominantly fees and charges) totalled VT 11,635.9 million, which is 93.2 per cent of its budget target of VT 12,489.1 million. The main component of this category is revenue from the Honorary Citizenship Programs (HCP) comprising the Vanuatu Development Support Program (VDSP), the Vanuatu Contribution Program (VCP) and the Capital Investment Immigration Plan (CIIP). Altogether revenue from these programs collected VT 10,303.0 million at the end of August, representing 135.0 per cent of the budget target of VT 7,629.5 million. HCP revenue is 96.4 per cent higher[3] than the VT 5,244.7 million that was collected during the same period last year.

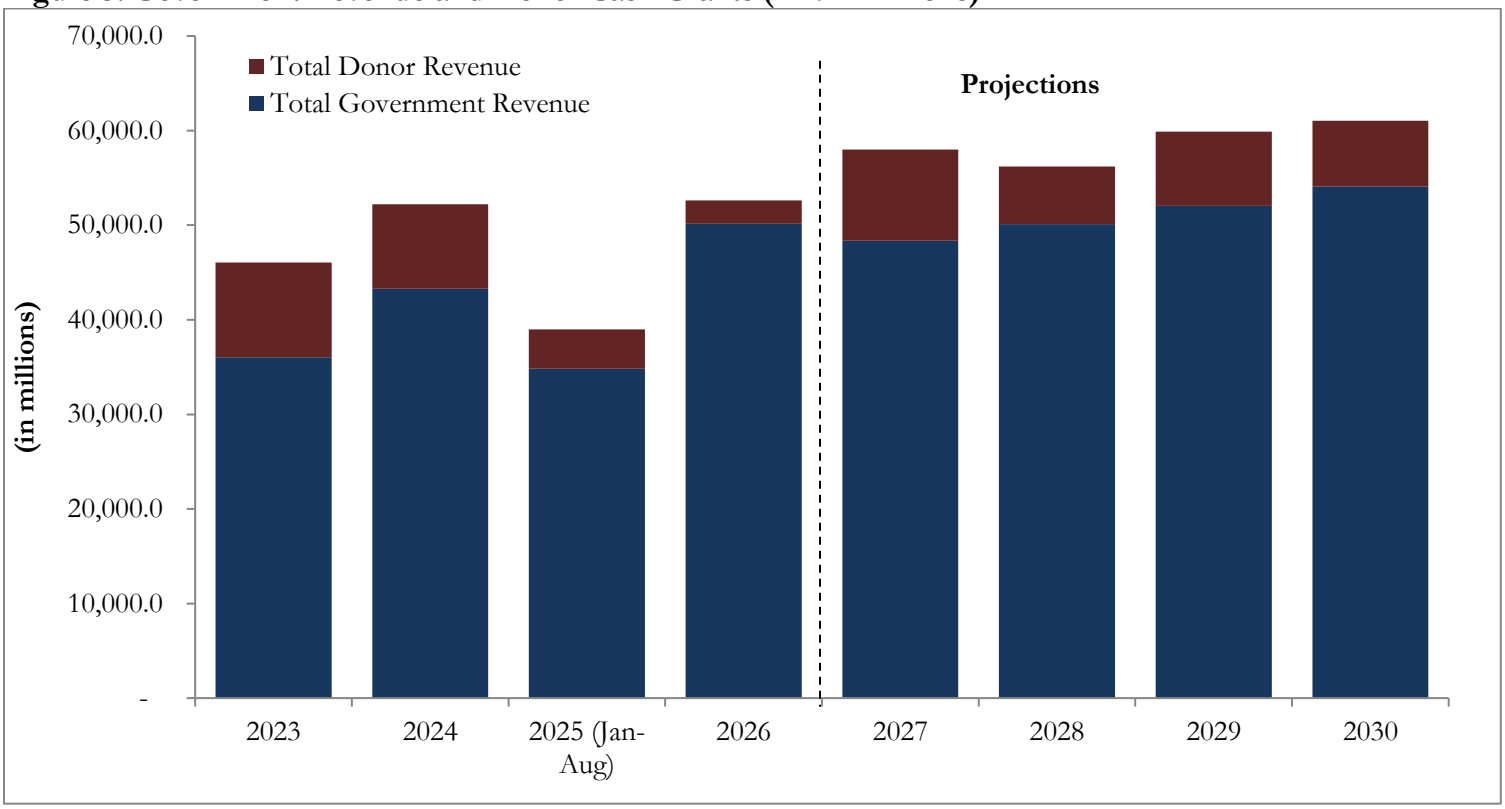
Vanuatu also received budget support from its development partners totalling VT 3,984.5 million with major contributions totalling VT 2,443.0 coming from the World Bank and VT 769.2 million coming from the Australian Government (DFAT).

At the end of August, the Government had received VT 4,190.7 million worth of project grants from development partners, representing 22.5 per cent of the revised budget target of VT 18,647.5 million[4]. The major contributing donors so far are the Australia Contributions (VT 2,428.7 million), World Bank Contributions (VT 360.0 million) and Asian Development Bank contributions (VT 348.3 million). The Vanuatu Government continues to gratefully acknowledge the support of its development partners.

[3] Increased collections mainly due to the implementation of a direct invoicing system to the Agent, effective May 2025.

[4] 2025 Original Donor Budget of VT 16,845.4 million has increased by VT 1,802.2 million through the additional normal supplementary budget.

Figure 5: Government Revenue and Donor Cash Grants (in VT millions)



Source: *Ministry of Finance and Economic Management*

This brings the total Government revenue (including donor financing) collected to VT 39,000.0 million at the end of August. This represents 61.1 per cent of the revised budget target of VT 63,826.1 million and is 26.4 per cent higher than the VT 30,844.9 million recorded during the same period last year.

4.3 Revenue Estimates in the Integrated National Budget 2026

4.3.1 Revenue Projections 2026

The Government revenue (excluding Donor Financing) is estimated to increase by 11.0 per cent from VT 45,178.6 million in 2025 to VT 50,140.9 million in 2026 mainly to the estimated increase in both VAT and the Honorary Citizenship Program. However, in 2026, the Government will continue to rely on the existing tax regimes with more emphasis on the compliance of tax policy and administration.

VAT, the major source of tax revenue, is estimated to increase its collection by 14.7 per cent from VT 13,730.0 million in 2025 to VT 15,748.0 million[5] in 2026.In addition, the Honorary Citizenship program is also estimated to increase by 62.2 per cent from VT 7,629.5 million in 2025 to VT 12,374.7 million in 2026. In contrast, Taxes on International trade is estimated to decrease by 6.4 per cent from VT 4,937.8 million in 2025 to VT 4,622.1 million in 2026. Excise Tax is also estimated to decrease by 1.0 per cent from VT 3,747.2 million in 2025 to VT 3,727.3 million in 2026.

In 2026, the Government will continue to strengthen its mechanisms for policy dialogue and mobilisation of budget support with key development partners – including Australia, New Zealand, the Asian Development Bank (ADB) and the

[5]The VT 15,748.0 million budget for net VAT collections is the VAT expected to be received by the Government (VT 16,144.3 million) minus the VAT to be paid by the Government (VT 396.3 million).

World Bank – through the continuation of the Joint Policy Reform Group (JPRG). Through this mechanism, the Government is expected to receive VT 3,670.0 million worth of Budget support in 2026. The 2026 Budget support comprises VT 1,700.0 million from the World Bank, VT 766.0 million from Australia, VT 616.0 million from ADB, VT 449.0 million under the EU Vanuatu Value Chain programme (VaVaC 2), and VT 139.0 million from New Zealand.[6]

In addition to the Government revenue collection estimates of VT 50,140.9 million, VT 10.1 million is estimated from the sales of fixed assets, VT 396.3 million from VAT paid by Departments and VT 4,330.6 million from issuance of Government bonds. This aggregates to a total of VT 54,877.9 million which will be used to fund the Government Budget Appropriation of VT 54,877.9 million.

In 2026, the Government is estimated to receive a total of VT 9,270.1 million worth of donor financing, comprising project grants (VT 2,475.0 million) and Aid in Kind (VT 6,795.1 million). No loan disbursement from its major development partners will occur. The donor financing appropriation represents a decrease of 65.8 per cent from the original budget of VT 27,093.7 million in 2025.

The total estimated revenue (Government and donor financing) in 2026 is VT 64,148.1 million. This represents a 16.5 per cent decrease from the VT 76,866.2 million total estimated revenue in the 2025 original Budget.

4.3.2 Revenue Measures 2026

The Government's spending needs have highlighted the need for increased revenue collection to fund its National Sustainable Development Plan (NSDP). With the recent difficulties faced by the country in natural disasters, and challenges in the international finance arena leading to AML-CTF and correspondent banking issues, it has been challenging for the Government to grow its revenue base. The Government relies heavily on its Value Added Tax (VAT) and non-tax revenue regimes, principally Citizenship, to fund its public expenditure needs. It is important to note that the Government currently spends more than it can collect resulting in borrowings that must fund the deficit.

As part of its revenue strategy, the Government plans to embark on a National Tax and Revenue Reform Strategy for Vanuatu. A holistic review of the current tax and non-tax revenue initiatives will examine (i) areas of improvement, (ii)potential new policies and (iii) any required legislative, regulatory or process changes. The scope of the review will include direct taxation reforms, indirect taxation reforms, non-tax reforms, and tax administration reforms.

Tax administration reforms will continue in 2026. Through the Vanuatu Sales Monitoring System (VSMS) Regulation Order No. 153 of 2025, the system is planned to be fully implemented in 2026. The VSMS is expected to make sales reporting more accurate, timely and transparent thereby improving tax compliance, reducing the grey economy, preventing tax evasion, and improving revenue collection.

Non-tax revenues will continue to be a major contributor to the Government's revenue in the 2026 financial year. The Citizenship program which was forecasted to decline in collections in 2025 collected more than expected. This performance is expected to continue in 2026 with the improved standardised payment procedure being implemented by the Office of the Citizenship Commission. The Government is expected to realise revenue potential in fisheries in 2026, including through implementation of the policy initiatives spearheaded by the Ministry of Fisheries, Ocean and Maritime

[6] VT 660.0 million was received under the EU VaVaC 2 first tranche but only VT 449.0 million has been appropriated to Budget 2026. This leaves an amount of VT 211.0 million available from the first tranche for the Government's next appropriation.

Affairs. As part of the National Tax and Revenue Reform Strategy, more reforms in the Government's non-tax revenue initiatives are expected in 2026.

A Revenue Governance Committee and a Revenue Technical Committee were appointed by the Minister responsible for Finance and Economic Management to assist the Government in its efforts to expand its domestic revenue base. These committees are expected to be active in 2026 and have been mandated in their respective TORs to work in close collaboration with respective revenue-raising Government ministries and agencies to identify potential revenue initiatives that can be implemented to bring in much needed revenue. Ministries are also encouraged to establish their own Revenue Governance Committees to ensure ownership and successful implementation of new revenue initiatives.

All Government revenue generating agencies have been reminded to ensure their revenue compliance strategies are effective and efficient. Agencies should ensure that the Ministry of Finance and Economic Management is consulted on any policy changes that will have an impact on their annual budgeted revenue.

Vanuatu Commitments with OECD Global Forum and EU Code of Conduct

Vanuatu continues in its efforts to meet international standards of good tax practices. This includes the ones set by the OECD's Global Forum on Transparency and Exchange of Information for Tax purposes (Global Forum) and the European Union's Code of Conduct Group (EU CoCG). Vanuatu is listed on Annex 1 (the so-called blacklist) of the EU List of Non-Cooperative Jurisdictions for Tax Purposes (the EU List) due to its facilitation of offshore structures and arrangements that generate profits without real economic substance.

In its efforts to meet these international standards, Vanuatu has introduced two bills that are pending parliamentary approval. These are:

- Bill for the Resident Entity (Economic Substance) Act
- Bill for the Resident Entity (Consequential Amendments) Act

The Bills, if passed by Parliament, should remove Vanuatu from Annex 1 of the EU List.

Finally, Vanuatu has gone through its second supplementary evaluation in accordance with its responsibilities to the OECD Global Forum. The review began in March 2025, with an onsite visit done in April 2025. Vanuatu is currently communicating additional information with Global Forum assessors which should assist in the formulation of anticipated better ratings for different elements in the Annex 1 in the EU list. Vanuatu is hopeful to improve this time around on its standing in the international tax arena.

4.4 Expenditure – January to August 2025

Government expenses (excluding donor financing) recorded VT 27,962.6 million at the end of August 2025, against a revised annual budget target of VT 43,444.5 million[7]. This denotes 64.4 per cent of the 2025 revised budget target and is 1.3 per cent more than the VT 27,608.9 million spent during the same period in 2024.

[7] The 2025 original Expense Budget of VT 42,137.6 million have increased by VT 1,306.9 million (VT 364.5 million for the rollover of 2024 unspent funds, VT 779.6 million for the Normal Supplementary Budget and VT 162.8 million for the financial emergency supplementary Budget).

In 2025, a total supplementary budget of VT 5,618.0 million was appropriated under section 34 of the PFEM Act [CAP 244]. These were funded by both the Government and its development partners as detail in annex 1 in table 17. The supplementary budget includes the normal supplementary of VT 3,119.2 million and financial emergency supplementary of VT 2,498.9 3 million directed mainly towards the Earthquake response and recovery efforts.

Spending on compensation of employees remains the largest component of Government expenses, recording VT 14,808.3 million at the end of August. This represents 63.1 per cent of the revised annual budget target of VT 23,453.1 million and is 16.5 per cent more than the VT 12,714.7 million spent during the same period in 2024.

The next largest category of Government expenses is the use of goods and services, which recorded a total of VT 5,193.5 million at the end of August. This represents 57.4 per cent of the revised budget target of VT 9,052.6 million and is 21.4 per cent less than the VT 6,607.6 million spent in the same period in 2024.

Grants, the third largest category of Government expenses, recorded VT 4,892.2 million at the end of August, which is 68.4 per cent of the budget target of VT 7,150.6 million and is 19.1 per cent lower than VT 6,049.3 million that was spend on grants during the same period in 2024.

The remaining categories of Government expenditure include interest, social benefits, subsidies, and other expenses. At the end of August, spending on interest reached VT 716.9 million, representing 47.3 per cent of the annual budget target of VT 1,515.7 million. This is 32.1 per cent higher than the VT 542.8 million spent during the same period in 2024. Expenditure on social benefits up to the end of August reached VT 850.7 million, representing 100.2 per cent of the annual budget target of VT 849.1 million and being 40.0 per cent higher than the VT 607.7 million that was spent during the same period in 2024.

Total spending on subsidies recorded VT 231.2 million, which represents 75.8 per cent of the budget target of VT 305.0 million and is 178.2 per cent more than the VT 83.1 million recorded during the same period in 2024. Other expenses totalled VT 1,269.7 million up until the end of August, representing 113.5 per cent of the annual budget target of VT 1,118.5 million and being 26.5 per cent more than the VT 1,003.7 million that was spent during the same period in 2024 (due to overspend in Government Contributions).

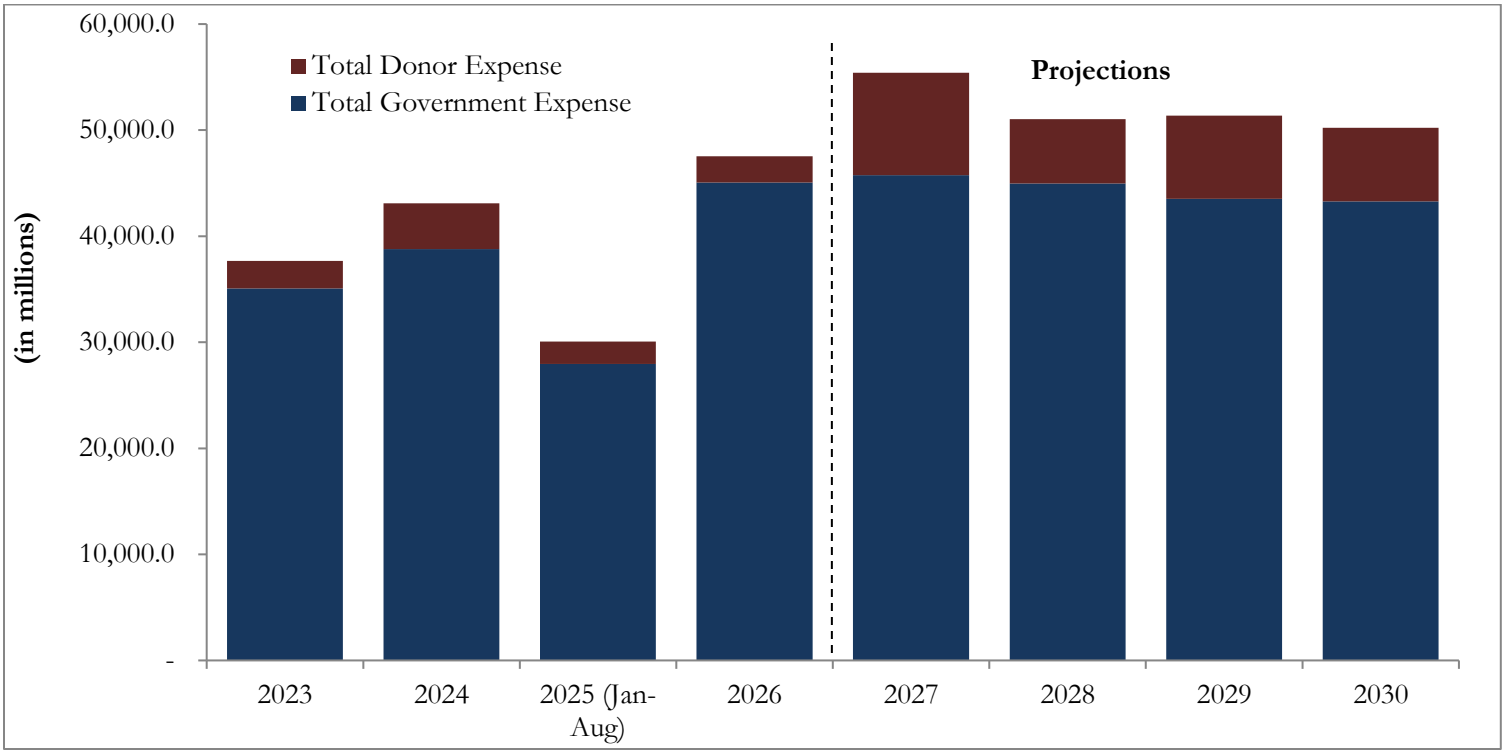
Net acquisition of non-financial assets recorded VT 2,429.9 million at the end of August, this represents 27.2 per cent of the revised budget target of VT 8,921.6 million[8] and is 25.0 per cent less than the VT 3,240.3 million that was spent on net acquisitions of non-financial assets during the same period in 2024.

Under development financing, spending on projects grants at the end of August reached VT 2,116.2 million. This represents 11.3 per cent of the revised budgeted target of VT 18,647.5 million[9] and is 15.6 per cent lower than the VT 2,506.9 million that was spent on projects at the end of August in 2024.

[8] The 2025 acquisition of non-financial assets original budget of VT 4,048.8 million has increased to VT 4,872.8 million (VT 3,803.0 million from the roll-over of the 2024 unspent funds, VT 401.0 million from the normal supplementary and VT 688.8 million from the financial emergency supplementary).

[9] The 2025 Donor Expense original budget of VT 16,845.4 million has increased by VT 1,082.2 million to reflect project grants from development partners for the normal supplementary.

Figure 6: ***Government and Donor Expenditure (in VT millions)***



Source: *Ministry of Finance and Economic Management*

Thus, total expenditure, including Government and Development financing, was VT 30,078.8 million at the end of August. This represents 48.4 per cent of the 2025 revised budget target of VT 62,092.0 million and is 0.3 per cent more than the VT 29,985.3 million spent during the equivalent period in 2024.

4.5 Expenditure Estimates in the Integrated National Budget 2026

The Government will continue to enhance service delivery and at the same time improve economic growth in 2026 to improve the well-being for all the people living in Vanuatu. On this note, the Government expense (excluding donor financing) is estimated to increase by 3.7 per cent from the revised budget target of VT 43,444.5 million in 2025 to VT 45,071.2 million in 2026. This increase is mainly due to greater estimated expenditure on the use of Goods and services, subsidies, compensation of employees, subsidies and social benefits.

However, in addition to the 2026 expense budget of VT 45,071.2 million is the acquisition of fixed assets, estimated at VT 5,918.7 million and representing a 33.7 per cent decrease from the 2025 revised budget target of VT 8,921.6 million in 2025. Meanwhile, external loan and bond repayments are estimated to increase by 11.8 per cent from VT 3,113.2 million in 2025 to VT 3,481.7 million in 2026.

Therefore, the 2026 Government estimated expense of VT 45,071.2 million, plus acquisition of fixed and non-produced assets (VT 5,928.8 million), loan repayments (VT 3,481.7 million) and VAT repayments (VT 396.3 million), amounts to a total of VT 54,877.9 million[10] which is the 2026 total Government (excluding Donor funding) Budget Appropriation. The

[10] The expenditure figures are shown by program, activity and agency in Table 11 and the volume 2 of the 2026 Budget Book.

total Government Budget Appropriation of VT 54,877.9 million includes VT 9,235.5 million worth of New Policy Proposals (NPP) that is allocated by the Government across ten budget policy priority outcomes outlined in the 2026 Budget Policy Statement. The 2026 Budget Policy Statement is also included for reference at the end of this report.

Thus, the total expenditure budget, including both the Government and Development financing, is VT 47,546.2 million. This represents a decrease of 23.4 per cent from the revised budget target of V 62,092.0 million in 2024 financial year.

Priority outcome 1: A Sustainable Economic Growth and Resilience emphasises the Government's commitment to improve service delivery through the productive sectors to improve production of goods and services, value addition (manufacturing) and trade of goods and services to enhance Economic growth and resilience. This priority outcome has been allocated with a total budget of VT 1,455.7 million and among others it also includes VT 300.0 million for the replacement of the Revenue Management System (RMS) with new Tax Administration System (TAS), VT 215.0 million for the purchase of the passport booklets, VT 200.0 million for the Agriculture Production for Value Addition Banking Facility, VT 200.0 million for the Productive Sector Banking Facility, VT 200.0 million for the Trade and Commerce Value Addition Banking Facility, VT 100.0 million for the Vanuatu Sales Monitoring System, VT 50.0 million for the friendly and sustainable management of Coconut Rhinoceros Beetle (CRB, Oryctes rhinoceros) using biological control agents, VT 46.0 million for the Vanuatu as the Pacific Regional Hub for Regenerative Agritourism and Gastronomy and VT 35.0 million for the Revolutionizing Beef Cattle farming through Silvopasture.

Priority Outcome 2: Education, Training and Skills Development: has been allocated with a total budget of VT 1,236.4 million. This priority outcome focusses on the Government's commitment to enhance human capital in the labour force to increase labour productivity, create opportunities and technology as well as increase production of goods and services to enhance economic growth. There are two NPPs under this priority outcome which includes VT 1,000.0 million for the Teachers Legal entitlements and VT 236.4 million for the National University of Vanuatu professional recruitments who will assist to develop academic and professional training programs.

Priority Outcome 3: Healthcare and Climate Adaptation: focuses on the Government's commitment to improve service delivery through health climate infrastructures and services. Health is so important to enhance a healthy workforce to improve investments, production, manufacturing, trade and marketing and economic growth. This priority outcome has been allocated with a total budget of VT 515.2 million. Among other NPPs, it includes VT 150.2 million for the VCH specialized care for the dialysis, CT Scan, Prosthetic dental lab and systems, VT 79.2 million for the Locum budget for the technical specialists, VT 50.0 million for Yorien dispensary, VT 50 million for Port Olry Health Centre Upgrade and VT 50.0 million for Liro Health Centre, VT 49.2 million for the establishment of Vanuatu Health Promotion Fund and VT 47.7 million for the VCH Kidney Care Unit.

Priority Outcome 4: Infrastructure and Climate-Friendly Development: emphasis the Governments commitments to enhance infrastructure to increase productions, Manufacturing, Trade and Marketing of goods and services and connectivity between the urban areas and the outer islands where most people live and engage in subsistence and commercial farming. Hence, the Government is committed to this essential service with a total NPP budget allocation of VT 4, 224.7 million. The allocation of the budget under the infrastructure priority outcome among others also includes VT 1,680.8 million for the outstanding claims for the Tanna and Malekula road project, VT 887.9 million for the outstanding claims for the Norsup Airport, VT 540.4 million for the Recurrent maintenance and repair activities (including roads, airports and fleets), VT 400.0 million for the Road maintenance of Capital Investment Projects, VT 265.8 million for the repair works of the Ministry of Finance and Economic Management (MFEM) Port Vila office Building, VT 102.6 million for the Tafea MFEM Building, VT 95.1 million for the MFEM Archive and Storage, VT 66.2 million for the

Groundwater Geophysical Survey Equipment, VT 59.6 million for the East Santo and North East Malekula Minor and Low Voltage network, VT 35.0 million for the Port Vessel Fleet Slipway Maintenance and VT 16.3 million for the Reviving of Efate Near Real Time Seismic Monitoring Stations.

Priority Outcome 5: Decentralization and Local Governance: is essential for the Government to enhance service delivery throughout the urban, rural and remote areas of Vanuatu. This priority outcome has been allocated with a total budget of VT 165.8 million and among other NPPs, it includes VT 77.1 million for the VARTC Infrastructure and Institutional Strengthening Support, VT 42.0 million for the Institutional Strengthening of the Area Councils, and VT 7.0 million to Strengthen and Equip five Area Councils in Tafea Province and five Area Councils in Malampa Province with ID Printers and Registration Certificates.

Priority Outcome 6: Strengthening Foreign Relations and International Cooperation: has been allocated with a total budget of VT 40.0 million focusing on the Government's commitment in enhancing its foreign service and external relations to improve trade and investments. The amount of VT 40.0 million is allocated specifically for the establishment of a new embassy in Tokyo, Japan.

Priority Outcome 7: National Security: has a total budget of VT 353.9 million to improve national security**.** Among other NPPs, it includes VT 130.6 million for the Microsoft M365 Software Licenses, VT 85.0 million for TrendMicro Software License and VT 50.0 million for the Police Recruitments.

Priority Outcome 8: Sustainable Blue Economy: focuses on the Government's commitment to strengthen the new Ministry of Fisheries, Oceans and Maritime Affairs to come with new initiatives of the blue economy. On this note, VT 46.1 million has been allocated for recruitment and institutional strengthening.

Priority Outcome 9: Youth, Justice, and Community Services: has been allocated with a total budget of VT 188.2 million to ensure that our society is inclusive and huma dignity is upheld to protect and promote all the rights of all Ni Vanuatu including women, youth, elderly and vulnerable groups**.** Amongst other NPPs, VT 50.0 million has been allocated for the establishment of the Vanuatu Professional Soccer League, VT 50.0 million for the Office of the Attorney General Re-structure, VT 20.6 million for the 2026 Vanuatu Participation in Fiji MACFEST and VT 9.3 million for the recruitment to enhance services delivery of Child protection and Child Rights.

Priority Outcome 10: Continued implementation and sustaining Government reforms, essential services and commitments: has been allocated with a total budget of VT 1,009.5 million. Amongst other NPPs, VT 500.0 million has been allocated for additional Severance Budget, VT 200.0 million for the Land Compensation Fund, VT 100.0 million for the Government new Integrated Financial Management Information System (IFMIS), VT 80.0 million for the Human Resource Information Management System (HRMIS), VT 25.2 million for the Climate Finance Project Management Unit, VT 20.0 million for the operational budget for the Commercial Investments Unit and VT 15.0 million for the additional operational budget for the Department of Energy.

4.6 Public Debt

The Government of Vanuatu remains committed to balancing development financing needs with maintaining debt at a sustainable level. This commitment is guided by the Medium-Term Debt Management Strategy (MTDS) 2025–2028, which emphasizes prudent risk management and transparency in public debt accounting. As of September 2025, preliminary reports indicate that Vanuatu's total public debt stood at VT 59,755.9 million, representing 41% of GDP.

This comprises:

- External debt: VT 40,653.0 million (28% of GDP)
- Domestic debt: VT 19,103.0 million (13% of GDP)

For 2026, total public debt is projected to rise to VT 63,187.0 million, maintaining the debt-to-GDP ratio at 41%. This is in line with the Government commitment on decentralization and investment in infrastructure projects. The current Government debt structure and composition reflects a moderate reliance on external financing, primarily from multilateral and bilateral partners, and a growing reliance on the domestic debt market. While debt levels remain within manageable thresholds, challenges related to market depth, secondary market development, and long-term debt sustainability, especially considering climate-related vulnerabilities and economic shocks remain.

Table 7. Statement of Debt Stock & Composition (VT millions)

	Actual 2022	Acutal 2023	Actual 2024	Preliminary 2025	Estimates 2026	Forecast 2027	Forecast 2028
External Debt							
Bilateral							
Exim Bank of China	15,958.40	16,783.00	17,530.13	17,018.47	16,266.70	13,449.29	11,367.28
JICA	7,124.10	6,233.60	4,757.35	4,585.48	5,487.40	5,280.80	5,280.77
Bilateral Government Guarantees	844.80	844.80	868.50	847.80	822.90	754.70	727.80
Total Bilateral Debt	**23,927.30**	**23,861.40**	**23,155.98**	**22,451.75**	**22,577.00**	**19,484.79**	**17,375.85**
Multilateral							
Asian Development Bank	**6,204.60**	**6,502.20**	**6,954.60**	**6,393.60**	**8,190.50**	**8,524.10**	**8,943.00**
Internal Development Association (World Bank)	11,330.70	11,269.60	11,190.69	11,772.10	11,236.50	11,836.50	12,236.50
Multilateral Government Guarantees	63.00	56.10	49.30	35.50	28.70	21.80	14.90
Total Multilateral Debt	**17,661.30**	**17,884.00**	**18,243.89**	**18,201.20**	**19,455.70**	**20,382.40**	**21,194.40**
Total External Debt	**41,588.60**	**41,745.40**	**41,399.87**	**40,652.95**	**42,032.70**	**39,867.19**	**38,570.25**
Domestic Debt							
Treasury Bills					1,300.00	2,000.00	3,000.00
Domestic Bond	10,523.20	12,709.80	16,592.40	17,880.34	19,880.34	20,180.30	19,180.30
Domestic Government Guarantees	996.70	1,047.60	1,120.00	1,222.60	1,273.90	1,273.90	1,273.90
Total Domestic Debt	**11,519.90**	**13,757.40**	**17,712.40**	**19,102.94**	**21,154.24**	**21,454.20**	**20,454.20**
Total Stock of Debt	**53,108.50**	**55,502.80**	**59,112.27**	**59,755.89**	**63,186.94**	**61,321.39**	**59,024.45**
Total Debt-To-GDP Ratio	45	42	43	41	41	37	34
External Debt-To-GDP Ratio	35	31	30	28	27	24	22
Domestic Debt-To-GDP Ratio	9	10	13	13	14	13	12

Source: DOFT and Vanuatu Bureau of Statistics.

4.6.1 Sources of Financing

1. External Financing

The main sources of external financing include Multilateral partners such as the International Development Association (IDA) of the World Bank and the Asian Development Bank (ADB), primarily through policy-based grants, blended loans, and contingent disaster-response funding, which is largely grant-based. Bilateral partners, notably Exim Bank of China and Japan, provide the bulk of project-based financing. All new external loans signed have met the 35% minimum grant element, in compliance with Section 54 of the PFEM Act.

2. Domestic Financing

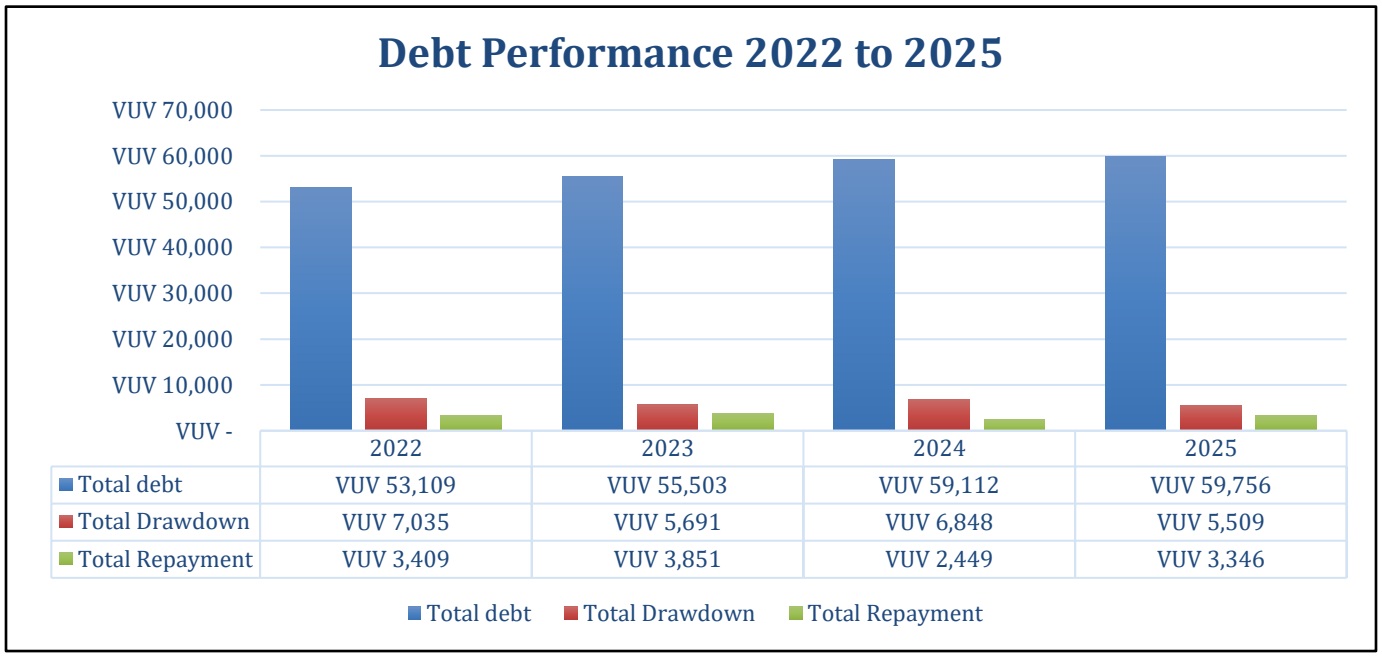
Domestically, the Government primarily raises funds through Domestic Bonds. However, there is growing demand for short-term securities, prompting the planned introduction in 2026 of Treasury Bills. The Government is also exploring the feasibility of issuing thematic instruments such as blue and green bonds to diversify financing sources and support the sustainable development goals (SDGs). While the development of the domestic market remains a priority, the absence of a secondary market continues to pose a challenge to market liquidity and investor participation.

Accordingly, the 2026 Budget Estimates highlights a total net financing requirement of VT 63,187.0 million. Of this, VT 3,300 million will be financed through domestic borrowing, including the issuance of Treasury Bonds and Bills.

4.6.2 Public Debt Performance

The performance of total Government debt from 2022 to 2025 shows a steady increase in borrowings, rising from over VUV 53,109 million in 2022 to VT 59,756 million (an increase of 12.5 per cent) as of September 2025. Repayment levels varied across the years, with the highest repayment recorded in 2023. Despite these fluctuations, the repayment-to-drawdown ratio remained consistent, averaging 0.53 over the period. This reflects the Government's commitment to and efficiency in managing loan repayments.

Figure 7. Debt Performance 2022 to 2025.



4.6.3 Debt sustainability outlook.

According to the IMF's latest Debt Sustainability Analysis (DSA), the country's risk of external debt distress was revised to moderate, although the overall debt distress risk remains high. One reason that the overall position remains one of high debt distress is that when the IMF conducted multiple 'stress tests', they found that debt sustainability was breached. Furthermore, while the current level remains below critical thresholds, projection indicate that the public debt to GDP ratio will exceed the 55% benchmark by 2032, one year earlier than previously estimated in July 2024 analysis. The key risk to the sustainability includes limited economic diversification, exposure to climate related shocks and the absence of a secondary market given constrained domestic debt liquidity. Therefore, the Government intends to:

1. **Prioritize Concessional Financing**
    - Seek concessional loans from multilateral and bilateral partners to finance development priorities.
    - Ensure that new borrowing is consistent with the Debt Sustainability Analysis (DSA) and supports growth-enhancing investments.
    - Strengthen coordination with development partners to align financing with national priorities.
2. **Develop the Domestic Debt Market**
    - Deepen and diversify the domestic investor base to reduce reliance on a few institutions.
    - Introduce a secondary market for Government securities to improve liquidity and price discovery.
    - Enhance transparency and predictability through regular debt issuance calendars and investor communication.
    - Build capacity within the Ministry of Finance and the Reserve Bank to manage domestic debt instruments effectively.
3. **Strengthen Risk and Cost Management**
    - Implement the Medium-Term Debt Management Strategy (MTDS) 2025 to 2028 to guide borrowing decisions based on cost-risk trade-offs.
    - Develop and publish an Annual Borrowing Plan (ABP) to improve predictability and accountability.
    - Monitor and manage refinancing, interest rate, and exchange rate risks using appropriate tools and indicators.

It is important to emphasise that the Government's debt position faces risks that are tilted towards the downside. For this reason, the Government's strong preference for grants rather than loans remains in place. Thus, the expectation is that the recent shift towards grants in lieu of loans will continue into 2026. The Government is grateful to its development partners for their support to this position.

Table 8. Statement of Government Operations, excluding donors using GFS14 Classification, in VT millions

GFS Code	GFS Description	Actual 2023	Actual 2024	Revised Budget 2025	Actual (Jan - Aug) 2025	Budget 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
	TRANSACTIONS AFFECTING NET WORTH:									
A1	Revenue	36,035.3	43,266.7	45,178.6	34,809.3	50,140.9	48,343.9	50,128.2	52,043.7	54,066.5
A11	Taxes	23,354.5	25,795.1	26,564.7	*19,188.9*	*29,138.6*	30,268.0	31,347.3	32,506.0	33,728.7
A111	*Taxes on income, profits, and capital gains*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
A112	*Taxes on payroll and workforce*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
A113	*Taxes on property*	*489.4*	*723.1*	710.3	*577.1*	*723.0*	754.0	783.4	815.0	848.4
A114	*Taxes on goods and services*	*17,963.2*	*20,995.9*	20,916.5	*15,803.4*	*23,793.5*	24,693.6	25,555.5	26,480.8	27,456.7
A115	*Taxes on international trade and transactions*	*4,902.0*	*4,076.1*	4,937.8	*2,808.4*	*4,622.1*	4,820.4	5,008.4	5,210.2	5,423.6
A116	*Other taxes*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0	0.0
A12	Social contributions	0.0	*0.0*	0.0	0.0	*0.0*	0.0	0.0	0.0	0.0
A132	Grants	1,837.4	3,394.0	6,124.8	3,984.5	*3,670.0*	0.0	0.0	0.0	0.0
A14	Other revenue	10,843.4	14,077.6	12,489.1	11,635.9	*17,332.3*	18,075.9	18,780.8	19,537.7	20,337.8
A2	Expense	35,060.2	38,793.0	43,444.5	27,962.6	45,071.2	45,762.2	44,955.2	43,510.5	43,266.3
A21	Compensation of employees	17,069.9	18,995.4	23,453.1	14,808.3	24,993.0	25,079.4	25,024.1	25,004.1	25,004.1
A22	Use of goods and services	9,122.2	8,670.2	9,052.6	5,193.5	10,712.6	11,205.8	10,443.9	9,732.6	9,732.6
A23	Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A24	Interest	1,114.3	1,169.1	1,515.7	716.9	1,537.7	1,025.8	1,016.1	962.6	718.4
A25	Subsidies	83.0	146.2	305.0	231.2	857.6	619.6	619.6	219.6	219.6
A26	Grants	5,193.0	6,994.1	7,150.6	4,892.2	4,575.6	4,322.3	4,342.3	4,282.3	4,282.3
A27	Social benefits	1,213.5	866.6	849.1	850.7	1,238.5	1,132.1	1,132.1	1,132.1	1,132.1
A28	Other expense	1,264.2	1,951.5	1,118.5	1,269.7	1,156.3	2,377.3	2,377.3	2,177.3	2,177.3
GOB	*Gross operating balance (1-2+23+NOBz)*	975.2	4,473.6	1,734.1	6,846.8	5,069.8	2,581.7	5,173.0	8,533.2	10,800.1
NOB	*Net operating balance (1-2+NOBz)*	975.2	4,473.6	1,734.1	6,846.8	5,069.8	2,581.7	5,173.0	8,533.2	10,800.1
	TRANSACTIONS IN NONFINANCIAL ASSETS:									
A31	Net investment in nonfinancial assets	2,032.3	4,669.3	8,921.6	2,429.9	5,918.7	3,253.2	3,324.2	1,827.1	1,827.1
A311	Fixed assets	1,526.6	4,143.5	8,110.6	1,943.3	4,907.7	3,253.2	3,324.2	1,827.1	1,827.1
A312	Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A313	Valuables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A314	Nonproduced assets	505.7	525.8	811.0	486.5	1,011.0	0.0	0.0	0.0	0.0
NLB	*Net lending / borrowing (1-2+NOBz-31)*	(1,057.2)	(195.7)	(7,187.5)	4,416.9	(849.0)	(671.5)	1,848.9	6,706.1	8,973.0
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):									
A32	Net acquisition of financial assets	(1,305.5)	2,225.6	(6,162.2)	4,808.9	0.0	(3,541.7)	(1,057.4)	3,828.2	6,090.8
A321	Domestic	(1,305.5)	2,225.6	*(6,162.2)*	*4,808.9*	0.0	(3,541.7)	(1,057.4)	3,828.2	6,090.8
A3212	*Currency and deposits*	*(1,194.4)*	2,225.6	*(6,162.2)*	*4,808.9*	0.0	*(3,541.7)*	*(1,057.4)*	*3,828.2*	*6,090.8*
A3214	*Loans*	*(111.2)*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A322	External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A33	Net incurrence of liabilities	(248.3)	2,421.3	1,025.3	392.0	849.0	(2,870.2)	(2,906.2)	(2,877.9)	(2,882.2)
A331	Domestic	2,186.6	3,882.7	3,426.4	1,287.9	3,300.0	0.0	0.0	0.0	0.0
A332	External	(2,434.9)	(1,461.4)	(2,401.1)	(895.8)	(2,451.0)	*(2,870.2)*	*(2,906.2)*	*(2,877.9)*	*(2,882.2)*

Source: *Ministry of Finance and Economic Management*

Table 9. Statement of Donor Operations using GFS14 Classification, in VT millions

GFS Code	GFS Description	Actual 2023	Actual 2024	Revised Budget 2025	Actual (Jan - Aug) 2025	Budget 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
	TRANSACTIONS AFFECTING NET WORTH:									
A1	Revenue	10,010.7	8,942.6	18,647.5	4,190.7	2,475.0	9,660.2	6,067.6	7,863.9	6,965.8
A11	Taxes	0.0	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
A111	*Taxes on income, profits, and capital gains*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A112	*Taxes on payroll and workforce*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A113	*Taxes on property*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A114	*Taxes on goods and services*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A115	*Taxes on international trade and transactions*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A116	*Other taxes*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	*0.0*	*0.0*
A12	Social contributions	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A13	Grants	10,010.7	8,942.6	18,647.5	4,190.7	2,475.0	9,660.2	6,067.6	7,863.9	6,965.8
A14	Other revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A2	Expense	2,603.5	4,301.8	18,647.5	2,116.2	2,475.0	9,660.2	6,067.6	7,863.9	6,965.8
A21	Compensation of employees	276.4	235.5	1,023.7	263.7	150.4	587.0	368.7	477.9	423.3
A22	Use of goods and services	2,096.3	2,638.5	12,341.6	1,541.3	1,813.3	7,077.5	4,445.4	5,761.4	5,103.4
A23	Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A24	Interest	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A25	Subsidies	4.8	0.7	32.1	0.0	4.7	18.4	11.5	15.0	13.3
A26	Grants	191.6	1,353.5	4,300.3	190.5	367.0	1,432.6	899.8	1,166.2	1,033.0
A27	Social benefits	22.3	28.0	925.3	8.6	135.9	530.6	333.3	431.9	382.6
A28	Other expense	9.9	45.5	24.6	112.2	3.6	14.1	8.9	11.5	10.2
GOB	*Gross operating balance (1-2+23+NOBz)*	7,407.2	4,640.8	-	2,074.5	0.0	0.0	0.0	0.0	0.0
NOB	*Net operating balance (1-2+NOBz)*	7,407.2	4,640.8	0.0	2,074.5	0.0	0.0	0.0	0.0	0.0
	TRANSACTIONS IN NONFINANCIAL ASSETS:									
A31	Net investment in nonfinancial assets	5,406.8	5,645.8	4,300.0	610.2	0.0	0.0	0.0	0.0	0.0
A311	Fixed assets	5,405.6	5,645.8	4,300.0	610.2	0.0	0.0	0.0	0.0	0.0
A312	Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A313	Valuables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A314	Nonproduced assets	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NLB	*Net lending / borrowing (1-2+NOBz-31)*	2,000.3	(1,005.0)	(4,300.0)	1,464.3	0.0	0.0	0.0	0.0	0.0
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):									
A32	Net acquisition of financial assets	2,000.3	(1,005.0)	0.0	1,464.3	0.0	0.0	0.0	0.0	0.0
A321	Domestic	2,000.3	(1,005.0)	*0.0*	1,464.3	0.0	0.0	0.0	0.0	0.0
A3212	*Currency and deposits*	*2,000.3*	*(1,005.0)*	*0.0*	1,464.3	0.0	0.0	0.0	0.0	0.0
A3214	*Loans*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A322	External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A33	Net incurrence of liabilities	0.0	0.0	4,300.0	0.0	0.0	0.0	0.0	0.0	0.0
A331	Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A332	External	0.0	0.0	4,300.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: *Ministry of Finance and Economic Management. The figures for 2027 onwards are estimates based on historical grant figures, as no formal donor confirmation has been received yet.*

Table 10. Statement of Consolidated Operations using GFS14 Classification, in VT millions

GFS Code	GFS Description	Actual 2023	Actual 2024	Revised Budget 2025	Actual (Jan - Aug) 2025	Budget 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
	TRANSACTIONS AFFECTING NET WORTH:									
A1	Revenue	46,046.0	52,209.2	63,826.1	39,000.0	52,616.0	58,004.1	56,195.8	59,907.6	61,032.2
A11	*Taxes*	23,354.5	25,795.1	26,564.7	19,188.9	29,138.6	30,268.0	31,347.3	32,506.0	33,728.7
A111	*Taxes on income, profits, and capital gains*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A112	*Taxes on payroll and workforce*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A113	*Taxes on property*	*489.4*	*723.1*	710.3	*577.1*	*723.0*	*754.0*	*783.4*	*815.0*	*848.4*
A114	*Taxes on goods and services*	*17,963.2*	*20,995.9*	20,916.5	*15,803.4*	*23,793.5*	*24,693.6*	*25,555.5*	*26,480.8*	*27,456.7*
A115	*Taxes on international trade and transaction*	*4,902.0*	*4,076.1*	4,937.8	*2,808.4*	*4,622.1*	*4,820.4*	*5,008.4*	*5,210.2*	*5,423.6*
A116	Other taxes	*0.0*	*0.0*	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
A12	Social contributions	*0.0*	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0
A13	Grants	*11,848.1*	*12,336.5*	24,772.3	8,175.2	6,145.0	9,660.2	6,067.6	7,863.9	6,965.8
A14	Other revenue	*10,843.4*	*14,077.6*	12,489.1	11,635.9	17,332.3	18,075.9	18,780.8	19,537.7	20,337.8
A2	Expense	37,663.7	43,094.8	62,092.0	30,078.8	47,546.2	55,422.4	51,022.8	51,374.4	50,232.1
A21	Compensation of employees	17,346.3	19,230.9	24,476.7	15,072.1	25,143.4	25,666.5	25,392.8	25,481.9	25,427.4
A22	Use of goods and services	11,218.5	11,308.7	21,394.2	6,734.8	12,525.9	18,283.3	14,889.3	15,494.1	14,836.1
A23	Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A24	Interest	1,116.6	1,169.1	1,515.7	716.9	1,537.7	1,025.8	1,016.1	962.6	718.4
A25	Subsidies	87.8	146.9	337.1	231.2	862.3	637.9	631.1	234.5	232.8
A26	Grants	5,384.7	8,347.6	11,450.9	5,082.6	4,942.6	5,754.9	5,242.1	5,448.5	5,315.3
A27	Social benefits	1,235.8	894.6	1,774.3	859.2	1,374.4	1,662.7	1,465.4	1,564.0	1,514.7
A28	Other expense	1,274.1	1,997.0	1,143.1	1,382.0	1,159.9	2,391.4	2,386.2	2,188.8	2,187.5
GOB	*Gross operating balance (1-2+23+NOBz)*	8,382.3	9,114.4	1,734.1	8,921.2	5,069.8	2,581.7	5,173.0	8,533.2	10,800.1
NOB	*Net operating balance (1-2+NOBz)*	8,382.3	9,114.4	1,734.1	8,921.2	5,069.8	2,581.7	5,173.0	8,533.2	10,800.1
	TRANSACTIONS IN NONFINANCIAL ASSETS:									
A31	Net investment in nonfinancial assets	7,439.2	10,315.1	13,221.7	3,040.0	5,918.7	3,253.2	3,324.2	1,827.1	1,827.1
A311	Fixed assets	6,932.2	9,789.3	12,410.7	2,553.5	4,907.7	3,253.2	3,324.2	1,827.1	1,827.1
A312	Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A313	Valuables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A314	Nonproduced assets	507.0	525.8	811.0	486.5	1,011.0	0.0	0.0	0.0	0.0
NLB	Net lending / borrowing (1-2+NOBz-31)	943.1	(1,200.7)	(11,487.6)	5,881.2	(849.0)	(671.5)	1,848.9	6,706.1	8,973.0
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):									
A32	Net acquisition of financial assets	694.8	1,220.6	(6,162.2)	6,273.2	0.0	(3,541.7)	(1,057.4)	3,828.2	6,090.8
A321	Domestic	694.8	1,220.6	(6,162.2)	6,273.2	0.0	(3,541.7)	(1,057.4)	3,828.2	6,090.8
A3212	*Currency and deposits*	*806.0*	*1,220.6*	(6,162.2)	6,273.2	0.0	(3,541.7)	(1,057.4)	3,828.2	6,090.8
A3214	Loans	*(111.2)*	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A322	External	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A33	Net incurrence of liabilities	(248.3)	2,421.3	5,325.4	392.0	849.0	(2,870.2)	(2,906.2)	(2,877.9)	(2,882.2)
A331	Domestic	2,186.6	3,882.7	3,426.4	1,287.9	3,300.0	0.0	0.0	0.0	0.0
A332	External	(2,434.9)	(1,461.4)	1,898.9	(895.8)	(2,451.0)	(2,870.2)	(2,906.2)	(2,877.9)	(2,882.2)

Source: *Ministry of Finance and Economic Management*

Table 11. Medium Term Budget and Estimates by Program and Agency, in VT millions

		Budget Year	Forward Estimate	Forward Estimate	Forward Estimate	Forward Estimate
Ministry	**Program**	**2026**	**2027**	**2028**	**2029**	**2030**
Constitutional Agencies		**3,430.9**	**3,320.9**	**3,320.9**	**3,320.9**	**3,320.9**
President of the Republic	Presidential Support	125.9	125.9	125.9	125.9	125.9
Parliament	Corporate Services Office	377.4	377.4	377.4	377.4	377.4
	Hansard Office	32.4	32.4	32.4	32.4	32.4
	Procedure and Legislative Office	745.1	745.1	745.1	745.1	745.1
	Parliamentary Committees	66.8	66.8	66.8	66.8	66.8
	Standing Committees Office	92.5	92.5	92.5	92.5	92.5
Judiciary	Administration of Justice	409.4	409.4	409.4	409.4	409.4
	Judicial Service Commission	1.9	1.9	1.9	1.9	1.9
Malvatumauri Council of Chiefs	Preservation of Vanuatu Customs, Culture and Language	172.7	172.7	172.7	172.7	172.7
National Audit Office	Public Sector Auditing	109.3	109.3	109.3	109.3	109.3
Office of the Ombudsman	Planning, Management and Investigations	89.2	89.2	89.2	89.2	89.2
Public Prosecutor	Operations	150.1	150.1	150.1	150.1	150.1
Public Solicitor	Public Legal Services	119.6	111.5	111.5	111.5	111.5
Public Service Commission	Public Service Commission	462.7	382.7	382.7	382.7	382.7
State Law Office	Legal Advice and Executive Management	308.8	308.8	308.8	308.8	308.8
Citizenship Office	Citizenship Commission	82.0	77.0	77.0	77.0	77.0
Electoral Office	Conduct of Elections	12.0	12.0	12.0	12.0	12.0
	Electoral Commission	56.2	56.2	56.2	56.2	56.2
	Electoral Commission and Corporate Services	17.0	-	-	-	-
Prime Ministers Ministry		**1,552.1**	**1,552.1**	**1,552.1**	**1,330.2**	**1,330.2**

	Director General's Office	169.8	169.8	169.8	169.8	169.8
	Information, Communication and Technology Policy and Administration	578.2	578.2	578.2	356.3	356.3
	Language Services	67.3	67.3	67.3	67.3	67.3
	Office of the Prime Minister	130.8	130.8	130.8	130.8	130.8
	Project Management	360.4	360.4	360.4	360.4	360.4
	Security Council	32.5	32.5	32.5	32.5	32.5
	Special Commissions	36.1	36.1	36.1	36.1	36.1
	Strategic Management	177.0	177.0	177.0	177.0	177.0
Ministry of Agriculture, Livestock, Forestry and Biosecurity		**1,998.0**	**1,948.0**	**1,948.0**	**1,948.0**	**1,948.0**
	Improve Food Security	138.7	138.7	138.7	138.7	138.7
	Improve Quality and Safety of Agriculture Products	111.9	61.9	61.9	61.9	61.9
	Increase Production of Commodity Crops	251.1	251.1	251.1	251.1	251.1
	Resilience towards Climate Change and Natural Resources SHEFA	1,143.9	1,143.9	1,143.9	1,143.9	1,143.9
	Support Institutional Capacity, Policy, Communication and Administration	340.0	340.0	340.0	340.0	340.0
	Sustainable Management of Natural Resources	12.5	12.5	12.5	12.5	12.5
Ministry of Tourism, Trade, Commerce and Ni-Vanuatu Business		**1,262.8**	**1,262.8**	**1,262.8**	**1,262.8**	**1,262.8**
	Aid-for-Trade Coordination	284.3	284.3	284.3	284.3	284.3
	Cabinet Support	78.8	78.8	78.8	78.8	78.8
	Cooperatives Development	178.9	178.9	178.9	178.9	178.9
	Executive Management and Corporate Services	175.0	175.0	175.0	175.0	175.0

	Industry Development	191.0	191.0	191.0	191.0	191.0
	Intellectual Property Development and Protection	43.7	43.7	43.7	43.7	43.7
	National Standards Development	127.4	127.4	127.4	127.4	127.4
	Tourism Development	183.8	183.8	183.8	183.8	183.8
Ministry of Education & Training		**13,327.6**	**13,327.6**	**13,327.6**	**13,327.6**	**13,327.6**
	Access Pillar	3,790.9	3,790.9	3,790.9	3,790.9	3,790.9
	Management Pillar	9,267.2	9,267.2	9,267.2	9,267.2	9,267.2
	Quality Pillar	269.5	269.5	269.5	269.5	269.5
Ministry of Finance and Economic Management		**12,914.5**	**11,539.5**	**12,498.5**	**11,574.9**	**13,158.7**
	Banking Facility	600.0	600.0	600.0	-	-
	Border Control and Enforcement	185.7	185.7	185.7	185.7	185.7
	Cabinet Support	94.2	94.2	94.2	94.2	94.2
	Executive Management and Corporate Services	1,784.1	1,115.6	1,115.6	915.6	915.6
	Financial And Economic Management	1,463.2	1,463.2	1,368.1	1,368.1	1,368.1
	Government Contributions to International Organisation	48.0	48.0	48.0	48.0	48.0
	Grants to Institutions	1,255.9	1,198.8	1,218.8	1,158.8	1,158.8
	National Statistics	172.9	172.9	172.9	172.9	172.9
	Payments on Behalf of Government	6,860.5	6,211.1	7,245.2	7,181.6	8,765.4
	Revenue Collection	449.9	449.9	449.9	449.9	449.9
Ministry of Foreign Affairs, International Cooperation and External Trade		**1,047.9**	**1,047.9**	**1,047.9**	**1,047.9**	**1,047.9**

	Cabinet Support	168.4	168.4	168.4	168.4	168.4
	Dept of Foreign Affairs	828.0	828.0	828.0	828.0	828.0
	External Trade Negotiation and Development	51.4	51.4	51.4	51.4	51.4
Ministry of Health		**5,185.7**	**4,996.7**	**4,996.7**	**4,996.7**	**4,996.7**
	Cabinet Support	73.4	73.4	73.4	73.4	73.4
	Executive Management and Corporate Services	686.6	686.6	686.6	686.6	686.6
	Health Services	4,425.7	4,236.7	4,236.7	4,236.7	4,236.7
Ministry of Infrastructure and Public Utilities		**5,952.4**	**4,594.4**	**4,760.4**	**3,383.7**	**3,383.7**
	Civil Aviation Authority	157.9	157.9	157.9	157.9	157.9
	Executive Management and Corporate Services	119.3	119.3	119.3	119.3	119.3
	Ministerial Cabinet Support	90.9	90.9	90.9	90.9	90.9
	Ports and Shipping Operations	351.7	351.7	351.7	351.7	351.7
	Ports Infrastructure Development	62.9	62.9	62.9	62.9	62.9
	Public Works	5,169.8	3,811.7	3,977.8	2,601.0	2,601.0
Ministry of Internal Affairs		**4,479.6**	**4,521.6**	**4,563.6**	**4,393.6**	**4,393.6**
	Cabinet Support	418.7	418.7	418.7	418.7	418.7
	Decentralisation Services	974.4	1,016.4	1,058.4	1,103.4	1,103.4
	Executive Management and Corporate Services	14.2	14.2	14.2	14.2	14.2
	Internal Security & Law Enforcement	2,535.7	2,535.7	2,535.7	2,320.7	2,320.7
	National Services	336.3	336.3	336.3	336.3	336.3
	Police Service Commission	18.8	18.8	18.8	18.8	18.8
	Urban Planning and Development	181.6	181.6	181.6	181.6	181.6

Ministry of Lands, Mines & Water Resources		**699.2**	**679.9**	**679.9**	**679.9**	**679.9**
	Cabinet Support	64.1	64.1	64.1	64.1	64.1
	Executive Management and Corporate Services	235.3	235.3	235.3	235.3	235.3
	Geology and Mines	33.7	30.7	30.7	30.7	30.7
	Lands Management	132.8	132.8	132.8	132.8	132.8
	Valuer General's Office	21.6	21.6	21.6	21.6	21.6
	Water Resources	211.8	195.5	195.5	195.5	195.5
Ministry of Youth, Justice and Community Services		**1,080.7**	**1,060.1**	**1,060.1**	**1,060.1**	**1,060.1**
	Cabinet Support	156.1	135.5	135.5	135.5	135.5
	Correctional Services	386.8	386.8	386.8	386.8	386.8
	Grants to Youth & Sports Statutory Bodies	169.6	169.6	169.6	169.6	169.6
	Land Ombudsman	7.2	7.2	7.2	7.2	7.2
	Lands Tribunal	88.8	88.8	88.8	88.8	88.8
	Law Commission	37.7	37.7	37.7	37.7	37.7
	National Child Desk	33.5	33.5	33.5	33.5	33.5
	National Disability Desk	28.7	28.7	28.7	28.7	28.7
	National Human Rights	12.4	12.4	12.4	12.4	12.4
	Womens Affairs	45.2	45.2	45.2	45.2	45.2
	Youth & Employment	30.0	30.0	30.0	30.0	30.0
	Youth Development & Sports	84.7	84.7	84.7	84.7	84.7
Ministry of Fisheries, Oceans and Maritime Affairs		**821.2**	**821.2**	**821.2**	**821.2**	**821.2**
	Cabinet Support	66.0	66.0	66.0	66.0	66.0

	Executive Management and Corporate Services	146.1	146.1	146.1	146.1	146.1
	Fisheries	464.6	464.6	464.6	464.6	464.6
	Maritime Authority	101.6	101.6	101.6	101.6	101.6
	Oceans & Maritime Affairs	42.9	42.9	42.9	42.9	42.9
Ministry of Climate Change Adaptation, Geohazards, Meteorology and Energy		**1,125.2**	**2,161.1**	**1,301.8**	**1,027.2**	**1,027.2**
	Cabinet Support	72.0	72.0	72.0	72.0	72.0
	Climate Change	59.5	44.5	44.5	44.5	44.5
	Energy	431.1	1,505.4	646.1	371.5	371.5
	Environment	107.3	107.3	107.3	107.3	107.3
	Executive Management & Corporate Services	145.9	145.9	145.9	145.9	145.9
	National Disaster Management	73.4	70.3	70.3	70.3	70.3
	Vanuatu Meteorological Services	236.1	215.7	215.7	215.7	215.7
Grand Total		**54,877.9**	**52,833.9**	**53,141.6**	**50,174.8**	**51,758.5**

Source: *Ministry of Finance and Economic Management*

Table 12. Reconciliation of Government Expenditure estimates in VT millions[11]

		Forward Estimates			
Budget Year	**2026**	**2027**	**2028**	**2029**	**2030**
Expenditure estimates in Base Recurrent Budget Ceiling	**45,642.5**	**45,043.1**	**46,077.2**	**46,013.6**	**47,597.4**
Effect of parameter and other variations	-	-	-	-	-
Effect of Policy Decisions	9,235.5	7,790.8	7,064.4	4,161.2	4,161.2
Total Recurrent Budget Ceiling	**54,877.9**	**52,833.9**	**53,141.6**	**50,174.8**	**51,758.5**
Unallocated fiscal space	-	(3,541.7)	(1,057.4)	3,828.2	6,090.8
Expenditure estimates in 2024 Budget (Inc. fiscal space)	**54,877.9**	**49,292.3**	**52,084.2**	**54,003.0**	**57,849.3**

Source: *Ministry of Finance and Economic Management*

[11] The total recurrent budget ceiling estimates in this table are the same as the grand total line in Table 11, with the addition of the unallocated fiscal space. The fiscal space has not been included in Table 11 in 2026 onwards because it has not been allocated to any programs and activities within any Ministry yet.

5. Budget Policy Statement 2026

1. Statement of Responsibility

The 2026 Budget Policy statement confirms the Government's utmost commitment towards recovery, enhancement of service delivery and economic growth, to continue to improve the wellbeing of all the people in Vanuatu. On this note, this statement of responsibility confirms the Government's commitment in preparation and finalisation of the 2026 Budget that will be supported by the core economic and financial policies that are in line with the legal requirements of sections 9 and 10 of the Public Finance and Economic Management (PFEM) Act [CAP 244]. These policies aim to achieve the Government's policy objectives and targets that were outlined in the Government's National Sustainable Development Plan (NSDP) or the People's Plan 2030, in order to enhance economic growth and improve service delivery throughout the entire Republic of Vanuatu.

Section 9 of the PFEM Act requires the Government to:

- specify its economic and financial policies, including those relating to key economic and fiscal variables; and
- State the discipline it will adhere to in its economic and financial dealings.

Section 10 of the PFEM Act requires the Government to:

- state its long-term objectives for fiscal policy in terms of major economic and fiscal variables;
- specify the main strategic priorities guiding the preparation of the budget;
- indicate the Government's targets for fiscal and economic variables; and
- provide an assurance that the long-term objectives outlined in the statement are:
    a. Consistent with the Principles of Responsible Fiscal Management laid down in Section 22 of the PFEM Act; and
    b. Consistent with the previous year's Budget Policy Statement – that is, policies have remained consistent over time or, otherwise, justifications have been made for their departure.

As the Minister and Director General responsible for deciding and implementing the economic, financial and fiscal policy of the Government, it is our honour to confirm that the 2026 Budget Policy Statement is in line with Sections 9, 10 and 22 of the Public Finance and Economic Management (PFEM) Act [CAP 244].



Hon. Johnny Koanapo Rasou (MP)
Minister of Finance and Economic Management
Ministry of Finance and Economic Management



Mr. Roan Lester SUNGHK
Director General
Ministry of Finance and Economic Management

2. Economic and Financial Policies

The Government's economic and financial policies will continue to put more emphasis on strengthening both the productive and social sectors to boost Vanuatu's economic growth, enhance service delivery and improve the wellbeing of all the people in Vanuatu. On this note, the Government will continue to raise sufficient revenue and allocate its financial resources towards both the productive sector and social sector in 2026 following the budget policy priority outcomes in this budget policy statement.

The guiding principles for the finalisation and implementation of Budget 2026 are the principles of responsible fiscal management in section 22 of the Public Finance and Economic Management (PFEM) Act [CAP 244], which are provided in the box below. These require the Government to pursue its budget policy objectives.

Section 22 of the PFEM ACT: Principles of Responsible Fiscal Management

1. Reducing and then managing debt at prudent levels so as to provide a buffer against factors that may impact adversely on the level of debt in the future, by ensuring that, unless such levels have been achieved, the total overall expenditures of the State in each financial year are less than its total overall receipts in the same financial year;
2. Achieving and maintaining levels of State net worth that provide a buffer against factors that may impact adversely on the State's net worth in the future;
3. Managing prudently the fiscal risks facing the State; and
4. Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

3. Budget Policies

The 2026 Budget policies have been developed in line with sections 9, 10 and 22 of the Public Finance and Economic Management (PFEM) Act [CAP 244]. The Budget policies, objectives, and targets are crucial to the process of developing and finalising the Budget 2026.

The 2026 Budget policies consist of:

1. Budget Policy Priorities for 2026,
2. Economic and Fiscal Targets for 2026 and
3. Long Term Economic Policy Objectives

A. Budget Policy Priorities for 2026

Background

As outlined in the Government Act, the Prime Minister (PM) of Vanuatu sets strategic policy planning and significant administrative decisions for the Republic of Vanuatu. This legal mandate facilitates the development of the 2026 Government Policy Priorities, focusing on the Environment and Society Pillars of the National Sustainable Development Plan (NSDP). The PFEM Act Section 9 ensures that financial resources align with these policy priorities.

The NSDP, also known as Vanuatu 2030: The People's Plan, serves as the guiding document for the Government in crafting the 2026 policy priorities to realize the aspirations of the people. With only four years remaining until the completion of the People's Plan, the 2026 priorities will provide a renewed platform for stakeholders to recommit to implementing our development agenda.

The year 2026 is pivotal as it will signify a decade since the establishment of 'sustainable development' as a shared national and international objective. The NSDP has emerged as a comprehensive national development framework, shaped through extensive consultations with Government agencies, non-Governmental organizations, private sector representatives, community-based organizations, civil society, and development partners. It also aligns with global sustainable development goals.

With recent evaluations indicating that 50% of the NSDP objectives have been implemented, the Government recognizes the urgency to accelerate efforts. This includes addressing the ongoing challenges of climate change, rural depopulation, economic development and cultural erosion that threaten Vanuatu's unique identity and environmental integrity.

Vanuatu's Government Policy Priorities for 2026, are based on the Priority Road Map developed in response to the NSDP Summit in 2022.



Target Outcomes:
- Economic growth and development
- Resilience
- Strengthening Planning and Budgeting Frameworks

Strategies: 4 (focused on recovery, rehabilitation, and partnerships)

2024

Goal: National, provincial, municipal, and area level development plans
Target Outcome: Improved and well-measured infrastructure and services
Strategies:

- Appropriate and relevant infrastructure
- Reliable and strong service delivery

2025

Goal: Resilient People and Environment
Target Outcome: Fair and just society in harmony with the environment
Strategies:

- Green and inclusive growth
- Climate resilience
- Protection of biodiversity
- Innovative partnerships for development frameworks

2026

Goal: Monitoring and reporting of NSDP implementation
Target Outcome: NSDP targets reviewed
Strategies:

- Reporting and monitoring of NSDP implementation
- Publishing achievement reports over the previous four years

The incoming Government has also introduced a 100 Day Plan. This re-frames the short-term objectives into broader, ongoing policy goals.

These priorities are designed to promote sustainable development, economic growth, and improved quality of life for all citizens.

1. Strengthening Governance and Public Sector Efficiency

Goal: Enhance the effectiveness, transparency, and accountability of Government operations.

Key Initiatives:

- Refine Government structures and optimize central agencies.
- Implement electoral reforms to enhance accountability and political oversight.
- Streamline public administration, including resource management and public holidays.
- Establish a Health Services Commission to improve healthcare delivery.

- Align legal and regulatory frameworks with international standards (citizenship, maritime affairs, environmental management).
- Continue Santo economic hub policy.

2. Fostering Economic Recovery and Sustainable Growth

Goal: Promote economic resilience, diversification, and inclusive growth.

Key Initiatives:

- Address the economic impacts of natural disasters, focusing on revenue collection and growth.
- Support the rebuilding of CBD areas affected by the December 17th, 2024 earthquake.
- Encourage fair competition and consumer protection through review of the Price Control Act.
- Explore new revenue sources to strengthen Government finances.
- Implement targeted marketing campaigns to promote Vanuatu as a tourism destination.
- Address fuel monopoly and better fuel prices.

3. Investing in Infrastructure and Resilience

Goal: Develop resilient infrastructure to support economic activity and improve community well-being.

Key Initiatives:

- Demolish condemned buildings to create safer urban spaces.
- Secure state-owned land for strategic relocation of Government offices.
- Implement a comprehensive road assessment and rehabilitation plan, prioritizing key routes.
- Upgrade infrastructure, including the Efate Ring Road and Santo East Coast Road.
- Enhance drainage and sewage systems in Port Vila.
- Finalize land acquisitions for critical projects (Eratap Cemetery, Lakatoro Subdivision, Tanna Whitegrass Airport, Norsup Airport).
- Recovery, Rebuilding and reconstruction of disaster affected public infrastructure including roads, bridges, schools, health centres and public buildings.

4. Transforming Education and Skills Development

Goal: Improve the quality, accessibility, and relevance of education and training to meet the needs of the workforce and promote lifelong learning.

Key Initiatives:

- Implement reforms to the Teaching Services Commission to enhance efficiency and accountability.
- Introduce a teacher licensing system to standardize qualifications and streamline recruitment.
- Conduct financial audits to improve transparency in education funding.
- Secure funding for school repairs and expand online learning opportunities.
- Address teacher shortages through collaboration with development partners.

5. Strengthening Foreign Relations and International Cooperation

Goal: Enhance Vanuatu's global standing and promote its interests through strategic partnerships and international engagement.

Key Initiatives:

- Reinforce regional and international alliances.
- Advocate for climate change action and commitment to international obligations in financing for loss and damage
- Secure foreign investment that aligns with national development goals.
- Improve trade agreements and strengthen diplomatic missions.
- Appoint a High Commissioner to India to strengthen economic and strategic cooperation.
- Ratify the BBNJ Agreement under the UN Law of the Sea to protect marine biodiversity.

These policy priorities will guide the Vanuatu Government's efforts to build a more prosperous, resilient, and equitable future for all its citizens. The Government will regularly monitor progress and adapt its strategies as needed to achieve these goals.

The Government of Vanuatu is dedicated to advancing a comprehensive strategy that promotes sustainable economic growth and enhances the quality of life while ensuring robust and transparent national institutions. Integrated into these priorities are initiatives focused on agriculture, climate change, and immediate actions as part of a 100-day plan.

Priority Outcome 1: Sustainable Economic Growth and Resilience:

Embark on a trajectory of sustainable economic development that prioritizes employment creation, enhanced living standards, and economic diversification. Emphasis will be placed on supporting local businesses, boosting tourism, and attracting foreign investments, particularly in agriculture, trade and tourism.

Target Outcomes: Elevated household incomes, a diversified and resilient economy, and reduced external dependence

Goal: Attain a 5% annual GDP growth and decrease unemployment by 2%.

Strategy

- Launch an agricultural productivity program to assist farmers with resources and training.
- Establish effective partnerships that facilitate the development of the private sector in the services and tertiary industries
- Increase Cooperatives and micro-financing schemes for small to medium entrepreneurs.
- Implement targeted marketing campaigns to promote Vanuatu as a tourism destination

Priority Outcome 2: Education, Training and Skills Development:

Strengthen educational systems and vocational training to create a workforce equipped for modern challenges. Enhance access to quality education, improve teacher training, and align educational pathways with market needs.

Target Outcome: Enhanced educational opportunities and improved skills development for children and young people, leading to a more skilled and productive workforce.

Goals:

- Increase student literacy and numeracy rates at all levels of education.
- Improve access to quality education in rural and underserved areas.
- Enhance vocational training programs to align with labour market demands.
- Increase the number of qualified teachers and trainers.
- A skilled workforce that meets the needs of the NSDP and supports sustainable economic growth.

Strategies:

- Implement updated curriculum standards focused on practical skills and knowledge.
- Invest in teacher training and professional development programs.
- Expand access to technology and digital learning resources in schools.
- Strengthen partnerships between educational institutions and businesses to provide relevant training opportunities.
- Identify skills needs and gaps across all sectors and levels of Government. Implement targeted training programs to address identified skills gaps.
- Review and implement the National Human Resources Skills Development Plan.

Priority Outcome 3: Healthcare and Climate Adaptation:

Advance healthcare services while integrating climate resilience into health and infrastructure planning. This includes reinforcing primary healthcare, upgrading hospital facilities and addressing health impacts of climate change.

Target Outcomes: Improved health and resilience among citizens and reduced disease burdens.

Goal 1: Reduce the infant mortality rate (IMR), under five mortality rate and maternal mortality rate (MMR) by 5%.

Strategy

- Strengthen integrated interventions including mobile health and or outreach service at all levels for reducing illness and deaths in mothers, new births, infants and children
- Improve quality maternal and child health service coverage through human resources capacity and availability of personnel at health facilities and community care facilities, and the resourcing of facility-based and outreach services.

Goal 2: Reduce the NCD (Lower & upper Limps) by 5% and Malaria Annual Parasite Incidence (API) by 2%.

Strategy:

- Strengthened integrated interventions at all levels for reducing morbidity and mortality due to non-communicable diseases (NCDs) and its major risk factors at all levels of the health system.
- Prevention, Early case Detection and Prompt Treatment (EDPT) of malaria.

Goal 3: Enhance rural health care access in Torba Province and Malampa province by 10%.

Strategy:

- Improving and upgrading of health facility infrastructure
- Improve human resources capacity and availability at health facilities.

Priority Outcome 4: Infrastructure and Climate-Friendly Development:

Invest in infrastructure that supports economic growth and meets climate goals. This encompasses improving transport, renewable energy, water and sanitation, and digital connectivity.

Target Outcomes:

- Increased access to climate-resilient infrastructure.
- Increased access to clean water.
- Increased access to affordable and efficient energy (including renewable energy).
- Lower transport costs.
- Increased service access.
- Increased rural economic opportunities

Goal:

1. **Roads**: Develop 100km of new resilient roads (including drainage systems).

2. **Urban Water Access**: Increase clean water access capacity to 100% for urban concession areas in Port Vila and Luganville.

3. **Provincial Water Access**: Increase clean water access capacity to 100% for provincial centres/capitals.

4. **National Water Access**: Increase clean water access capacity to 85% for all communities in Vanuatu.

5. **Concession Area Energy**: Increase energy access, affordability, and efficiency to 100% in all concession areas.

6. **Provincial Capital Energy**: Increase energy access, affordability, and efficiency to 100% in all provincial capitals.

Strategies:

- **Roads:** Implement Public Roads Strategy 5: "Building a sustainable and efficient core road network."
- **Water:** Implement the Vanuatu National Water Policy (2017-2030) to secure safe, accessible, affordable, and sustainable water sources for all communities in Vanuatu.
- **Energy:** Implement the National Energy Roadmap (2016-2030) to achieve energy access, affordability, and efficiency through renewable energy in concession grids, public buildings and infrastructure, provincial centres, economic hubs, mini townships, and rural communities.

Priority Outcome 5: Decentralization and Local Governance

Progress decentralization and support provincial growth models. Implement a balanced budgetary framework across provinces and empower local Governments to deliver multiple and diversified services in conjunction with sector agencies located in the provinces.

Target Outcomes*:* Effective local governance, elevated local economic growth, fair resource distribution, and service delivery.

Goal*:* Progressing one-plan-one-budget in three provinces and enhance provincial governance capabilities.

Strategies*:*

- Consult and design the one-plan-one-budget-per-province system in select provinces.
- Strengthen Area Councils to enable collaboration with line agencies to deliver diversified services
- Strengthen Corporate Services of the provincial Government including capacity building and financial management system
- Build infrastructure for Area Councils offices and equip the offices as central administration for national ID, passport, birth and marriage registration, and labour mobility processes.
- Construct police posts and residential houses for police and provincial Government staff
- Strengthen Community Policing, improve the capacity, and expand the responsibilities of the community police agents
- Restructure the Department of Labour and create separate entity for Labour Mobility with extended recruitment services within the provinces
- Expand passport enrolment system to overseas locations to enhance accessibility and travel
- Digitalize and integrate personal identification information to enable the interoperability of systems
- Acquire lands for establishment of new municipalities in the provinces

Priority Outcome 6: Strengthening Foreign Relations and International Cooperation

Target outcomes: Enhanced Vanuatu sovereignty and interest globally, positive engagement with international community, and increased international market access

Goal: Enhance Vanuatu's global standing and promote its interests through strategic partnerships and international engagement.

Strategies:

- Reinforce regional and international alliances.
- Advocate for climate change action.
- Secure foreign investment that aligns with national development goals.
- Improve trade agreements and strengthen diplomatic missions.
- Appoint a High Commissioner to India to strengthen economic and strategic cooperation.
- Ratify the BBNJ Agreement under the UN Law of the Sea to protect marine biodiversity.

Priority Outcome 7: National Security

Bolster national security with a focus on addressing anticipated threats and strengthening national systems, mechanisms, legislation and resources as outlined under the 10 Pillars of the National Security Strategy.

Outcomes: Enhanced safety, lower crime susceptibility, and secured national integrity. Lower dependence, improved capabilities and resources allocation.

Goal: Strengthen Vanuatu's security system to a more robust architecture that can anticipate, prevent and respond to any security threat in an effective and timely manner.

Strategies:

- Based on the 2026 Security Outlook, consult and stock take on the resource gaps and capacity constraints;
- Strengthen security data collection, security databases and information sharing;
- Maximize awareness on the classification handbook to strengthen the protection of classified sovereign information and data;
- Consult with the Public Service Commission on the allocation of public land to critical security entities i.e. DCDT, Bureau of Standards, Fisheries, CAAV and Ports and Harbour;
- Establish critical infrastructure register to best protect Vanuatu's Critical Infrastructure;
- Strengthen resources and intelligence network for the enactment of an intelligence bill;
- Strengthen capabilities and resources on ground, maritime, undersea, airspace and upper airspace monitoring systems.

Priority Outcome 8: Sustainable Blue Economy

Objective: Enhance the fisheries and maritime sectors by leveraging blue economy opportunities and emphasizing marine conservation. This includes the development of fishing hubs and the enhancement of maritime infrastructure.

Target Outcomes:

- Increased economic gains.
- Improved livelihoods for coastal communities.
- Strengthened maritime facilities to support local economies.

Goals:

1. Develop an integrated framework to implement ocean and fisheries policies that focus on sustainability while maximizing economic benefits.
2. Introduce two new revenue streams and policies specifically tailored for the Blue Economy.
3. Achieve a 15% increase in revenue generated from blue economy sectors.

Strategy:

- Implement the Vanuatu National Oceans Policy (2016-2030) and the National Fisheries Policy (2016-2031).
- Develop an ocean governance framework to harmonize existing policy mandates concerning national actions related to natural and marine resources. This framework will address maritime and ocean affairs within the Blue Economy.

Priority Outcome 9: Youth, Justice, and Community Services

Foster a transparent and accountable governance framework. Reinforce anti-corruption measures, advance justice outcomes, and improve welfare for vulnerable members of society.

Goal:

- Achieve a percentage reduction in court case backlogs and a 25% increase in the involvement of youth and women in community development initiatives.
- Elevate Vanuatu's position in the Transparency International Corruption Perception Index by 5 points.

Target Outcomes:

- Streamlined justice processes resulting in faster resolution of cases.
- Enhanced youth-led initiatives promoting development and empowerment.
- Increased social inclusivity for marginalized groups, particularly women.

- Delivery of accessible, relevant, timely, and quality justice for all citizens.

Strategies:

1. Implement Alternative Dispute Resolution (ADR) Mechanisms:

    - Increased support for structured ADR programs allowing mediation and arbitration for various disputes, reducing the court's caseload.
    - Support legal aid organizations to improve access to these services for underrepresented groups.

2. Enhance Access to Legal Information and Services:

    - Develop user-friendly information platforms (online and in community centres) that provide citizens with accessible legal resources and guidance.
    - Create outreach programs targeting remote or marginalized communities to ensure they are informed about their rights and available legal options.

3. Establish a National Human Rights Institution and Anti-Corruption Framework:

    - Promote accountability and transparency within the justice system to build public trust.
    - Ensure that the rights of all citizens are upheld, focusing on marginalized groups, including children, youth, women and disabilities.

4. Support the development of an inclusive sports system

    - support partnership arrangements to implement initiatives aimed at identifying and developing talents in schools including delivering organised community and national physical activities

By integrating these strategies, the Government of Vanuatu aims not only to streamline justice but also to ensure it remains accessible, relevant, timely, and of high quality, fostering a more equitable society for all citizens.

Priority Outcome 10: Continued implementation and sustaining Government reforms, essential services and commitments

To manage resources and development effectively and sustainably, the Government will continue to ensure there are resources available to implement and maintain development initiatives and support Government obligations including responding to disasters and *early* recovery.

- **Continued support for 2025 Government Policy priorities** to implement continued infrastructure, Economic and Cultural Hubs
- **Continued support for recovery efforts** to implement strategies aimed at reconstruction of the Port Vila Central Business District (CBD), strengthening Vanuatu's economic resilience and recovery

through **building resilient infrastructure for economic, social and environmental sectors** at both the national and subnational levels.

- **Continued payment of Government Loans** and legal obligations to ensure efficient fiscal management
- **Preparedness and Emergencies** to allow Government to prepare and respond to threats of natural and other disasters without affecting allocated services budgets.
- **2nd Review of the NSDP 10 years Implementation and the 2nd NSDP Summit** to review the 10 years progress of NSDP implementation including recommendations for the next 4 years
- **Allocation of Fiscal Space to Priority Outcomes (tentative)**

Thus, the Government Policy focus for 2026 is Strengthening the 3 levels of Government- National level, Provincial and Area Council, to deliver quality and targeted resourcing with 10 key policy outcomes.

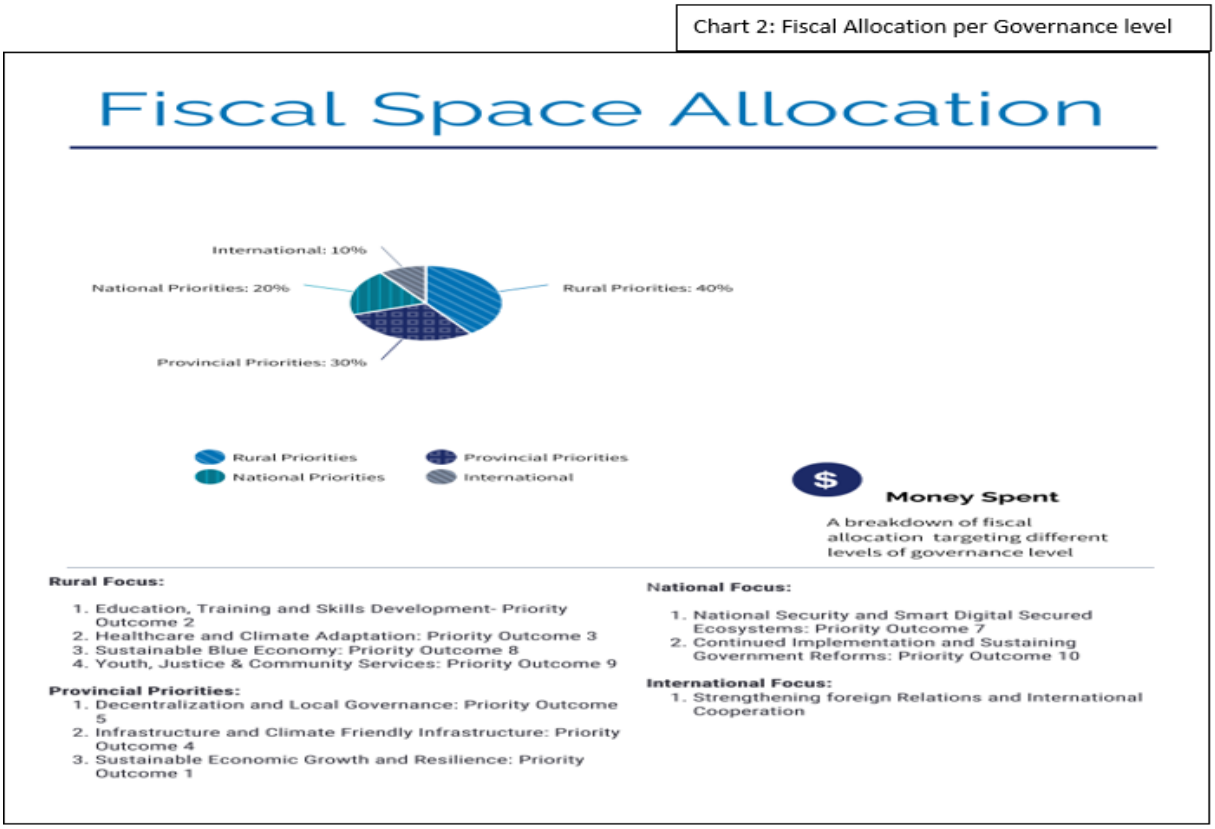
The DSPPAC with the assistance of DoFT have been closely monitoring the trend of actual fiscal space allocation over the past years. After analysing the trends of the actual fiscal space allocation over the past years, it is proposed that the overall fiscal space allocation for MBC to allocate to the Policy Outcomes are as follows:

- **Priority Outcome 1: Sustainable Economic Growth and Resilience: 10%**
- **Priority Outcome 2: Education, Training and Skills Development: 10%**
- **Priority Outcome 3: Healthcare and Climate Adaptation: 10%**
- **Priority Outcome 4: Infrastructure and Climate-Friendly Development: 10%**
- **Priority Outcome 5: Decentralization and Local Governance: 10%**
- **Priority Outcome 6: Strengthening Foreign Relations and International Cooperation: 10%**
- **Priority Outcome 7: National Security and Smart digital secured ecosystems: 10%**
- **Priority 8: Sustainable Blue Economy: 10%**
- **Priority 9: Youth, Justice and Community Services: 10%**
- **Priority 10: Continued implementation and sustaining Government reforms, essential services and commitments: 10%**

Chart 1: Fiscal Allocation per priority sector



Chart 2: Fiscal Allocation per Governance Level



DSPPAC Policy Analysts will work with sectors to analyse their NPPs to ensure they are in-line with one of the ten policy priority outcomes of 2026 and meeting targets of NSDP, prior to working with Expenditure

Analysts at DOFT to prepare submissions for the Ministerial Budget Committee (MBC) members. This will assist MBC decision-making especially in targeted allocation and allowing for a comparison between the final allocation and the 2026 budget priorities allocation in this paper.

Support provided to Programs by Development Partners

The Government with support from its development partners, will provide assistance to all policy outcomes. The Government, through the implementation of the ODA Management Policy and the ODA Management Implementation Strategy, continues dialogue with all development partners to ensure the alignment of their programs (ongoing and new) to identified Government priorities. This dialogue will continue in 2026.

B. Fiscal Policies

The Government's fiscal policy will continue to be guided by the principles of responsible fiscal management. Together with Government reforms and sound financial management, the fiscal policies will continue to place more emphasis on growing the economy through increasing Government revenue, and meeting Government expenditure programs and activities, at the same time enhancing service delivery to improve the wellbeing of all the people in Vanuatu.

C Economic Update in 2025

World Economic Outlook (WEO)

The April 2025 World Economic Outlook by the International Monetary Fund (IMF) projects a global economy grappling with slower growth and rising uncertainties for 2025 and 2026. Global GDP growth is forecasted to decline to 2.8 per cent in 2025, a 0.5 percentage point downgrade from the forecast in January 2025, before a modest recovery to 3.0 per cent in 2026. Emerging markets and developing economies are expected to grow at 3.7 per cent in 2025, with India leading at 6.2 per cent, while China's growth is reduced to 4.0 per cent due to trade tensions and subdued domestic demand. Advanced economies face weaker prospects, with growth at 1.4 per cent in 2025, including a sharp U.S. downgrade to 1.8 per cent. The Euro area is set for 0.8 per cent growth in 2025, with Spain outperforming at 2.5 per cent.

The IMF highlights escalating risks, such as trade disruptions and financial volatility, that threaten the 2025–2026 outlook. For 2025, growth downgrades reflect U.S. tariff impacts and policy uncertainty, with global trade growth projected at just 1.7 per cent. Emerging markets in Asia show resilience, but Latin America, the Middle East, and sub-Saharan Africa face downward revisions, with Mexico projected to contract at -0.3 per cent in 2025 due to U.S. trade policies. In 2026, growth is expected to stabilize, supported by structural reforms and easing inflation, which is projected at 3.6 per cent globally. The IMF urges policymakers to carefully manage monetary easing to balance growth and inflation, pursue fiscal consolidation, and implement reforms to boost labour participation and productivity. Strengthening multilateral trade cooperation is critical to mitigate fragmentation and support recovery.

Table 13: World Economic Outlook: Real GDP (year-over-year change; per cent)

	World Economic Outlook								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
World Output	**3.6**	**3.5**	**3.3**	**2.8**	**3.0**	**3.2**	**3.2**	**3.2**	**3.1**
Advanced economies	2.9	1.7	1.8	1.4	1.5	1.7	1.7	1.7	1.7
United States	2.5	2.9	2.8	1.8	1.7	2.0	2.1	2.1	2.1
Euro area	3.5	0.4	0.9	0.8	1.2	1.3	1.3	1.2	1.1
Japan	0.9	1.5	0.1	0.6	0.6	0.6	0.6	0.5	0.5
Emerging market and developing economies	4.1	4.7	4.3	3.7	3.9	4.2	4.1	4.1	4.0
China	3.1	5.4	5.0	4.0	4.0	4.2	4.1	3.7	3.4

Source: International Monetary Fund, World Economic Outlook (WEO), April, 2025

The outlook for advanced economies in 2025 and 2026 indicates restrained growth amid trade disruptions and policy uncertainty. The IMF projects a growth rate of 1.4 per cent for advanced economies in 2025, a downgrade from previous expectations, with a slight improvement anticipated in 2026. The United States faces a sharp adjustment to 1.8 per cent growth in 2025, influenced by high tariffs and softening demand, with risks of a further slowdown persisting into 2026. The Euro area is expected to grow at 0.8 per cent in 2025. Strong domestic demand in Spain is expected to bolster growth to 2.5 per cent, while Germany and France lag due to weak consumer confidence. Japan's growth is revised down to 0.6 per cent in 2025, hindered by structural challenges, with a modest recovery projected for 2026. Advanced economies will also confront tariff-induced inflation pressures, estimated to be 2.5 per cent in 2025, which necessitate careful monetary policy calibration to balance growth and price stability.

The forecast for emerging markets and developing economies in 2025 and 2026 shows moderated growth amid trade tensions and regional challenges. The IMF projects growth at 3.7 per cent in 2025, with a slight uptick expected in 2026, driven by resilience in Asia. India's growth remains robust at 6.2 per cent in 2025, supported by strong domestic demand, while China's forecast is downgraded to 4.0 per cent due to U.S. tariff impacts and weak domestic consumption. Latin America faces weaker prospects, with Mexico projected to contract at -0.3 per cent in 2025 due to trade disruptions, though Argentina anticipates a recovery in growth at 5.5 per cent. The Middle East and Central Asia grapple with geopolitical risks, while subdued growth is projected in sub-Saharan Africa due to debt constraints and global trade slowdowns. Despite these challenges, emerging markets are expected to manage uncertainties with targeted fiscal measures and structural reforms to bolster medium-term growth.

Global inflation is projected to continue declining in 2025 and 2026, though challenges persist due to trade-induced price pressures. The IMF forecasts global headline inflation at 4.3 per cent in 2025, a slower decline than anticipated earlier, with a further reduction to 3.6 per cent in 2026. In advanced economies, inflation is expected to reach 2.5 per cent in 2025, driven by persistent services sector price pressures and U.S. tariff impacts, particularly in the United States, where inflation is projected at 3.0 per cent. Emerging markets and developing economies face higher inflation, with a slower convergence toward central bank targets due to trade disruptions and commodity price volatility.

The global outlook for 2025 and 2026 highlights intensified downside risks amid trade tensions, policy uncertainty, demand volatility, and persistent inflation. Upside potential exists through accelerated structural reforms, such as boosting labour participation and migrant integration, and enhanced multilateral trade cooperation, which could lift productivity and foster positive spillovers. However, downside risks dominate, with the potential escalation of U.S.-China trade tensions coupled with tariff-induced price pressures threatening disinflation and growth performance. A 40 per cent likelihood of a U.S. recession in 2025, tighter global financial conditions, and geopolitical uncertainties could further disrupt growth. High policy uncertainty, reflected in the century-high Economic Policy Uncertainty Index, further threatens investment

and trade. The IMF urges policymakers to carefully sequence monetary easing, pursue fiscal consolidation, and strengthen multilateral frameworks to mitigate fragmentation and sustain growth momentum in 2025 and 2026.

Regional Economic Outlook (REO)

The Pacific Island Countries (PIC)'s average growth is projected at 3.1 per cent, slowing slightly to 2.7 per cent in 2026, due to global trade disruptions, especially U.S. tariffs impacting tourism, remittances, and exports. Tourism-dependent economies like Fiji face downgraded forecasts (2.6 per cent in 2026), as weak global demand hits visitor numbers. Papua New Guinea (PNG) stands out with 4.6 per cent growth in 2025, driven by the reopening of the Porgera gold mine, then moderating to 3.5 per cent in 2026.

Regional inflation is expected to ease to 4.1 per cent in 2025 and 3.3 per cent in 2026, reflecting global trends. Tariff pass-through effects and global commodity volatility continue to affect import prices, notably in PNG, recording 5.5 per cent in 2025, and Nauru at 7.3 per cent in 2025.

Projected economic growth in Australia is expected to grow to 1.6 per cent in 2025 and further to 2.1 per cent in 2026. And New Zealand's growth is forecasted to increase to 1.6 per cent in 2025, with further improvement to 2.7 per cent in 2026.

Risks and vulnerabilities can pose hinderances to the PIC economies. These include escalating U.S.-China trade tensions, higher tariffs, and global policy shifts threatening trade, tourism, and public finance in. Climate and natural disasters remain persistent structural threats – especially for small island states like Vanuatu, Tuvalu and Kiribati.

Table 14: Regional Economic Outlook: Real GDP (year-over-year change; per cent)

Country	2022	2023	2024	2025	2026	2027	2028	2029	2030
Pacific (excl Aus&NZ)	***2.1***	***3.0***	***3.6***	***3.1***	***2.7***	***2.3***	***2.2***	***2.0***	***2.0***
Fiji	19.8	7.5	3.7	2.6	2.8	3.2	3.2	2.1	2.1
Kiribati	4.6	2.7	5.3	3.9	3.2	2.5	2.2	1.8	1.6
Marshall Islands	-1.1	-3.9	2.8	2.5	4.1	2.4	1.9	0.7	0.7
Micronesia	-2.9	0.5	0.7	1.1	1.5	0.8	0.7	1.8	1.8
Nauru	3.0	0.6	1.8	2.0	1.6	1.7	1.8	2.2	2.2
Palau	-0.8	1.4	7.1	5.7	3.5	2.7	2.3	2.2	2.2
Papua New Guinea	5.7	3.8	3.7	4.6	3.5	3.1	3.1	3.1	3.1
Samoa	-5.4	9.2	9.4	5.4	2.6	2.0	2.0	2.0	2.0
Solomon Islands	2.4	2.7	2.5	2.7	2.8	2.9	3.0	3.0	3.0
Tonga	-2.3	2.1	2.1	2.7	2.3	1.8	1.6	1.2	1.2
Tuvalu	-2.4	7.9	3.3	2.8	2.3	2.2	2.0	1.9	1.7
Vanuatu	5.2	2.1	0.9	1.4	2.1	2.5	2.2	2.2	2.2
Australia	4.1	2.1	1.0	1.6	2.1	2.3	2.3	2.3	2.3
New Zealand	2.9	1.8	-0.5	1.4	2.7	2.7	2.3	3.2	3.2

Source: IMF & Staff calculations

Vanuatu Economic Outlook (VEO)

Note: The GDP figures quoted in this published Budget Policy Statement 2026 have been updated (as per the commentary in 3.3 Vanuatu Economic Outlook (VEO) above). The optimistic outlook for the economy, however, remains.

Overview

The Vanuatu economy has demonstrated remarkable resilience following the devastating earthquake of 17 December 2024. The Macroeconomic Committee has revised its growth forecast upward to 3.7 per cent for 2025, an increase from the March 2025 projection of 3.6 per cent. This represents a significant 1.5 percentage point increase from the 2.2 per cent growth recorded in 2024, indicating a strong economic rebound supported by post-earthquake recovery efforts and robust visitor arrivals.

Table 15: Real Gross Domestic Product Growth (% change)

Sector	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Agriculture, Fishing and Forestry Sector	-2.7	2.7	3.9	-0.8	2.2	2.7	3.1	3.4	3.5	3.2
Industry Sector	4.0	-1.3	-19.7	3.2	1.8	8.1	9.2	6.3	3.9	4.1
Services Sector	-6.7	0.4	7.8	6.4	3.0	3.9	3.7	3.9	3.7	3.9
Real GDP Growth (2006 Prices)	**-5.0**	**-1.6**	**5.2**	**4.0**	**2.2**	**3.7**	**3.9**	**4.0**	**3.9**	**4.1**

Source: Vanuatu Bureau of Statistics and Macroeconomic Committee (MEC) 2 2025 Estimates

The first half of 2025 has shown encouraging signs of economic recovery despite initial challenges. Fiscal performance has exceeded expectations, with Government revenues reaching 37 per cent of the annual budget by April 2025, driven primarily by strong Value Added Tax collections and the Honorary Citizenship Programme. Government expenditures were 7 per cent higher than the same period in 2024, constituting 29 per cent of the Government's expenditure target for 2025.

Monetary stability has been maintained with inflation falling to negative 0.7 per cent in the December 2024 quarter, below the Reserve Bank of Vanuatu's target range of 0 to 4 per cent. Official reserves remain robust at over 8 months of projected import cover, well above the legal minimum threshold of 4 months. The Government's successful rollout of its post-earthquake economic stimulus package, including wage subsidies, small business grants, and loan guarantees, has provided crucial support to affected businesses in Port Vila.

The Vanuatu economy continues to face headwinds from global economic uncertainty, particularly regarding United States trade policy. In April 2025, the United States imposed a 23 per cent tariff on Vanuatu exports, subsequently reduced to 10 per cent during a 90-day pause ending in July 2025. These tariffs pose a direct threat to Vanuatu's kava exports, which amounted to 1,325 million Vatu in 2024, with the United States being the third-largest destination for goods exports at 7.5 per cent of total exports.

The indirect effects of potential United States recession and global economic volatility could significantly impact Vanuatu through reduced visitor arrivals and lower demand for exports across global markets. Additional challenges persist including poor domestic air connectivity following Air Vanuatu's liquidation, delays in capital projects, the Coconut Rhinoceros Beetle threat to copra production, revenue shortfalls, tropical cyclone risks, labour shortages, land disputes, and correspondent banking relationship challenges.

Agriculture, Fisheries, and Forestry Sector

The Agriculture, Fisheries, and Forestry sector is projected to grow by 2.7 per cent in 2025, revised upward from the initial forecast of 2.4 per cent. The sector remains pivotal to Vanuatu's economic landscape, contributing significantly to both subsistence and commercial activities. Despite facing multiple challenges including the Coconut Rhinoceros Beetle threat, labour shortages, and natural disaster risks, the sector shows resilience with mixed but generally positive developments across sub-sectors.

Commercial crop production continues to face varied challenges and opportunities across different commodities. Kava production in the commercial sector is projected to grow by 2 per cent in 2025, down from the initial forecast of 3.5 per cent, reflecting quality deterioration and impacts from United States tariffs. Export volumes have declined despite price improvements in the first quarter of 2025, with the deflator decreasing from 1.0 per cent to 0.5 per cent as prices declined and quality of kava dropped, leading to reduced export volumes.

Cocoa production demonstrates strong performance with 15 per cent growth projected for 2025, though export tonnage has fallen on both year-on-year and quarter-on-quarter bases. The sector benefits from ongoing rehabilitation efforts and the installation of grafted plants, with deflators remaining unchanged. Coffee production shows robust 12 per cent growth projection, though performance remains closely linked to tourism recovery. Export prices have increased despite tonnage decreases, reflecting the sector's vulnerability to tourism fluctuations.

Coconut production in the commercial sector is expected to achieve modest 1 per cent growth, supported by solid demand from Asian markets despite previous declines. The deflator remains unchanged, reflecting stable market conditions. Copra production continues to face challenges with negative 1.5 per cent growth projected, though prices have improved with deflator adjustments from 0.1 per cent to 0.5 per cent. Export volumes remain weak despite price improvements.

Subsistence crop production shows exceptional performance, with garden crops achieving 3 per cent growth, significantly benefiting from the absence of cyclones since 2023. This strong performance reflects the sector's resilience when not affected by natural disasters. Fruits and vegetables maintain robust 20 per cent growth, with deflator adjustments from 1 per cent to 1.5 per cent reflecting price changes in the islands and relocation impacts.

Animal production demonstrates steady performance with beef production showing 2 per cent growth despite challenges from abattoir equipment failures that have limited the sector to domestic supply only, preventing exports. The Government continues to support the sector through pasture improvement programmes, cattle restocking, and small ruminant production initiatives.

The Forestry sub-sector benefits from solid domestic demand driven by returning seasonal workers, with 3.2 per cent growth projected for 2025. This performance reflects the sector's ability to adapt to changing market conditions and labour availability. The Fishing sub-sector maintains 3.1 per cent growth despite challenges from high fuel costs that make fresh fish unaffordable for low-income earners. Local fish prices have increased from 1,200 Vatu to 1,500 Vatu per kilogram, with deflator adjustments from 1 per cent to 1.5 per cent reflecting these local market price changes.

Industry Sector

The Industry sector continues as the fastest-growing sector of the economy, with 8.1 per cent growth projected for 2025, revised from the initial forecast of 8.9 per cent. This strong performance is driven by post-earthquake reconstruction activities and the implementation of over 10 billion Vatu worth of Government

capital projects rolled over from 2024. The sector's growth reflects both the immediate reconstruction needs following the earthquake and the Government's commitment to infrastructure development.

Construction activities show strong momentum with 10.8 per cent growth projected for 2025, revised from the initial forecast of 13.2 per cent. With uncertainty as to when insurance payouts will start, it is anticipated that the earthquake reconstruction works in the CBD surrounding area will be delayed to 2026 and 2027. The building construction subsector is expected to grow by 11 per cent, with project activity extending beyond the Capital Budget and positive growth seen in quarter one from private sector credit to support construction projects within the private sector. Building completion activities are projected to grow by 13 per cent, supported by ongoing projects that were delayed from previous periods.

Renovation and repair activities demonstrate exceptional growth at 25.5 per cent, driven primarily by earthquake recovery efforts and necessary repairs to damaged infrastructure. This reflects the immediate reconstruction needs following the December 2024 earthquake and the Government's commitment to rebuilding damaged facilities.

Major infrastructure projects driving growth include the Pentecost Road Phase 2, Vanuatu Climate Resilient Transport Project Phase 2, and Tanna Road Phase 3. The Efate Ring Road Rehabilitation Project and Ambae Road projects have recently commenced in the second quarter of 2025, providing additional momentum for construction sector growth.

The Manufacturing sub-sector projects 2.2 per cent growth in 2025, revised from the initial forecast of 2.4 per cent, reflecting mixed performance across different manufacturing activities. Food manufacturing subsector growth reduced from 3 per cent to 2.5 per cent reflect Vanuatu Brewing Limited (VBL) slowdown in its production capacity, from equipment damages due to the earthquake.

Handicraft production has been revised to 8.5 per cent growth due to the cessation of cruise ship visits to Port Vila and the closure of Malampa Handicraft operations. This adjustment reflects the sector's dependence on tourism-related demand and the challenges posed by reduced visitor access to outer islands.

Quarrying activities show strong 12 per cent growth, supported by ongoing construction projects and infrastructure development needs. This reflects the increased demand for construction materials driven by both reconstruction activities and planned infrastructure projects.

The Electricity and Water Supply sub-sector demonstrates robust 10 per cent growth, revised upward from the initial forecast of 9 per cent. This growth is driven by increased demand from demolition and reconstruction activities, progressive tourism recovery, and growing household demand for solar energy, particularly in rural areas with the trend extending to urban areas. Vanpower deflator adjustments from 4 per cent to 4.5 per cent reflect the increased costs associated with fuel-generated electricity, particularly as the Brenwei facility on Malekula remains non-operational.

Services Sector

The Services sector maintains its 3.9 per cent growth projection for 2025, demonstrating resilience despite the impacts of the December 2024 earthquake. The sector benefits from better-than-expected visitor arrivals, Government stimulus measures, the loan grace period (which ended in June 2025) and the gradual recovery of business activities following the reopening of Port Vila's Central Business District. Reinstating online booking for domestic flights is a matter of urgency which should amplify tourism activities in the remote

islands when this is achieved. Visitor arrivals have significantly exceeded expectations, with January 2025 showing 7.5 per cent year-on-year growth and February recording exceptional 58.5 per cent growth. This strong performance reflects the successful entry of new airline carriers including Qantas and Jetstar, Government tourism marketing initiatives funded through the stimulus package, and the influx of recovery workers following the earthquake.

Accommodation and Food Services growth has been revised to 11.2 per cent from the initial forecast of 14.7 per cent, primarily due to challenges with domestic air connectivity that continue to affect tourism to Santo, Tanna, and other outer islands. Despite these connectivity challenges, the sector benefits from the recovery in Port Vila-based tourism and the increased demand from reconstruction workers and visitors. Additionally, the broader rollout of the Government's stimulus package has positively impacted retail trade, indirectly supporting consumer spending within this sector.

Wholesale and Retail Trade activities show strong performance supported by Government stimulus measures and improved economic conditions. The combined Wholesale and Retail Trade sector projects 3 per cent growth, supported by strong Value Added Tax collections and the rollout of stimulus measures that have boosted consumer demand.

Other Wholesale Trade activities are projected to grow by 1.9 per cent, benefiting from the positive impacts of Value Added Tax policy changes and increased economic activity. Retail Trade specifically shows 3.5 per cent growth, revised upward from the initial forecast of 3 per cent, driven by Value Added Tax effects and Public Service Commission initiatives that have supported consumer spending.

The Transport sector maintains 1.3 per cent growth projection, though specific sub-sectors show different performance patterns. Air Transport is projected to grow by 1.5 per cent in 2026, with deflator adjustments from 2.2 per cent to 3.5 per cent reflecting the acquisition of new twin otter aircraft and increases in domestic airfare prices.

Telecommunications services show deflator increases from 2 per cent to 2.5 per cent, reflecting changes in Vodafone's pricing structure, particularly the discontinuation of 150 Vatu credit sales, which has affected the sector's pricing dynamics.

Commercial Banks demonstrate improved performance with 2.1 per cent growth, up from the initial forecast of 1.8 per cent, supported by declining non-performing loans that indicate improving financial sector health. The Finance and Insurance sector projects 3.2 per cent growth, revised from the initial forecast of 3 per cent, benefiting from Government loan guarantee programmes while managing earthquake-related insurance payouts.

Real Estate activities continue to show strong performance with owner-occupied dwellings growing by 2.5 per cent and rented dwellings at 3.5 per cent. This reflects new subdivisions at North Efate, partly related to the Lelepa cruise project, and relocation impacts following the earthquake. Real estate agents demonstrate robust 8.5 per cent growth, supported by increased activity in both residential and commercial property markets.

Professional, Scientific and Technical Services project strong 7.3 per cent growth, revised upward from the initial forecast of 6.5 per cent. This growth is driven by increased demand for engineers, surveyors, and specialists required for reconstruction activities and the implementation of rolled-over capital projects. The sector benefits from both earthquake recovery needs and planned infrastructure development.

Public Administration shows 2 per cent growth, supported by the Government's improved fiscal position and increased donor support following the earthquake. Education services demonstrate strong 5.5 per cent growth

projected for 2026, driven by Asian Development Bank INTV projects, the establishment of new schools, teacher salary settlements, and underlying population growth.

Vanuatu's services sector, projected for 3.9 per cent growth in 2025, faces critical risks despite current resilience from strong tourism and Government stimulus. Inadequate domestic air connectivity remains a key impediment to broad tourism recovery, particularly for outer islands. Further, over-reliance on temporary stimulus, volatile telecommunications pricing, and susceptibility to natural disasters and global economic shifts pose significant challenges. Policy should thus prioritize enhancing domestic transport infrastructure, fostering sustainable private-sector-led growth, strengthening regulatory oversight in key service areas, and implementing robust disaster risk reduction and climate change adaptation measures.

Monetary Update

The Reserve Bank of Vanuatu (RBV) maintained its monetary policy stance, by keeping its policy rate at 2.75 per cent in March 2025, against the backdrop of stabilized global economic growth and easing international financial conditions, and to support domestic economic recovery. Moreover, the Capital Adequacy Ratio (CAR) remains at 12.0 per cent, the Statutory Reserve Deposit (SRD) remains at 5.50 per cent, and the Liquid Asset Ratio (LAR) remains at 5.0 per cent. The RBV continues its open market operations to influence the level of excess liquidity in the banking system. The RBV will continue to monitor global and domestic developments until the next review in June 2025.

In terms of monetary policy objectives, official reserves remained above its minimum threshold, recording 7.5 months of import cover at the end of March 2025. Annual inflation remained below the RBV's minimum target, recording -0.7 per cent in the December 2024 quarter. Overall, Vanuatu's exchange rate regime continues to act as a nominal anchor for domestic inflation.

Monetary conditions continued to support growth, as money growth is estimated to have expanded by 8.7 per cent during the first three months of 2025. The annual growth in money supply was attributed to both Net foreign assets (NFA) and domestic credit. NFA expanded 11.2 per cent, owing to net inflows of foreign currency recorded by both commercial banks and the RBV. Similarly, the surge in domestic credit by 7.6 per cent was attributed in particular to private sector credit. The annual trend in private sector credit is expected to be driven by both businesses, and individuals and households. Over the year to March 2025, the Government's net credit position has improved, reflecting the accumulation of Government deposits with the RBV, of which the bulk of these deposits are post-recovery funds.

In terms of components of money supply, money growth over the year to March 2025 was attributed to both narrow money (+7.2%) and quasi money (+13.2%). The trend in narrow money indicated that money flow into the economy remained strong to support economic recovery. Similarly, residents have increased their interest-bearing deposits with commercial banks as reflected in the growth in narrow money.

The banking sector is adequately capitalized as the overall Capital Adequacy Ratio (CAR) recorded 23.3 per cent over the year to December 2024, above the minimum CAR of 12 per cent. Private sector credit is picking up, recording an annual growth of 7.1 per cent in the December 2024 quarter, though a high concentration (56.2 per cent) originates from the personal sector. In general, the value of non-performing loans (NPLs) decreased by 16.5 per cent to VT12.8 billion in the December 2024 quarter, though increases were still noted in higher risk categories (doubtful and loss loans). The banking industry's liquidity is maintained at adequate

levels, as the Liquid Asset Ratio (LAR) is positioned at 48.6 per cent on 4th March 2025, which is well above the minimum regulatory threshold of 5.0 per cent.

In terms of outlook, money growth is projected to be driven by both NFA and domestic credit in 2025. Domestic credit is expected to moderate, since inflows as Government transfers, are expected to counterbalance the anticipated increase in domestic borrowing. Furthermore, growth in private sector credit is expected to be modest this year. Growth in net foreign assets is projected to moderate in 2025, as huge inflows anticipated for the post-earthquake recovery will be offset by high import payments for construction materials. The RBV will continue to monitor growth in the money supply and implement appropriate policy measures to ensure money growth remains sustainable.

The domestic banking sector is expected to remain sound, profitable, and adequately capitalized in the short to medium term, though individual banks face ongoing challenges.

Inflation

The annual headline inflation rate was -0.7 per cent in the December 2024 quarter (compared to +7.0% in the Dec-2023 quarter), below the RBV's minimum target band. Inflation has receded from the high peaks seen in 2023, as global financial conditions have eased, global disinflation has continued, annual average international commodity prices have declined, and inflation in Vanuatu's main trading partners (Australia and New Zealand) has fallen. Domestically, the absence of shocks (cyclones) in 2024, combined with a tightened monetary policy stance and a strengthening in the average value of the Vatu against the AUD and NZD, leading to cheaper imports from these countries, have all contributed to slowing inflation.

The main expenditure categories attributing to the fall in year-on-year inflation were food (-1.6%), reflecting decreased prices on fruits and vegetables; drinks and tobacco (-0.6%), driven by a fall in prices of wines and spirits; housing and utilities (-3.3%), attributed to easing in electricity and water supply charges; and communication (-9.4%), due to reduced prices of new sim cards. The average annual inflation for 2024 was recorded at 1.2 per cent, significantly lower than the 11.3 per cent recorded in 2023. The annual underlying inflation rate fell by 0.1 per cent, implying that the general prices of goods and services, excluding energy and food, have declined relative to a year ago.

Based on current developments, Vanuatu's headline inflation is forecasted to rise above the zero per cent benchmark in the next two quarters but will remain within the RBV target band of 0-4 per cent throughout 2025. The main assumptions behind these forecasts are: i) a steady increase in food prices: reflecting the projected decline (-5.0%) in global food in 2025, though local prices remain volatile reflecting seasonality of crops; ii) stable prices in drinks and tobacco: reflecting recovery of domestic production and local supply of local alcoholic and non-alcoholic beverages and declining global non energy prices; iii) increasing housing utility prices: reflecting high rental prices due to high demand for accommodation following the destruction caused by the earthquake of private and Government buildings in the CBD, partly offset by declining global energy prices; and iv) transport prices to remain high: reflecting high international shipping and freight costs, air fares remaining high, and shipping fees expected to remain stable; again partly offset by declining global energy prices, and the continued reduction in domestic fuel prices. The average fuel price decreased by 7.4 per cent in the March 2025 quarter relative to the same period of 2024. Tropical cyclones, the intensification of the war in Middle East and the European conflicts, have led to high shipment costs; which remain major upside risks to the forecasts.

Balance of payments

Vanuatu's current account balance (CAB) is estimated to have improved by 21.8 per cent in the December 2024 quarter. The key driver was the significant improvement in the secondary income net balance, outweighing deteriorations in the trade in goods balance, trade in services balance, and primary income balances. Both the capital and financial accounts have improved, reflecting transactions associated with the Government-funded infrastructure projects and post-earthquake recovery efforts.

The RBV's official foreign reserves recorded VT 75,095 million in March 2025, an increase of 7.4 per cent year-on-year. The bulk of these inflows were Government development assistance and RBV's inward receipts. Outflows of foreign currency were recorded for Government external loan repayments, outflows to commercial banks, and RBV's external payments. The current level of foreign reserves is estimated to cover at least 7.5 months of imports in March 2025.

In terms of outlook, inflows via post-earthquake recovery initiatives and remittances are expected to sustain the level of foreign reserves in 2025. Based on the latest developments, the level of foreign reserves is expected to finance approximately 8.3 months of imports. The downside risks to this outlook include higher payments of the Government's obligations abroad and higher import payments if recovery process fast-tracks this year.

The current account balance (CAB) is expected to deteriorate (-VT7.8 billion) in 2025, though a slight improvement from 2024. The key driver is the anticipated improvement in trade in services balance, driven by the recovery in air arrivals; trade in goods balance is expected to worsen due to higher imports estimated for post-recovery construction materials. The secondary income balance is expected to surge in 2025 owing to inflows of funds via post-earthquake recovery and public infrastructure projects, including non-life insurance claims. The primary income balance is expected to remain stable in 2025, reflecting stable or easing global interest rates on investments, supported by high demand for seasonal workers abroad.

Movements of the Vatu[12] vis-à-vis the major foreign trading currencies reflect developments in the economic and financial conditions of Vanuatu's major trading partners. The Vatu (VUV) appreciated against the USD and AUD by 1.0 per cent and 0.1 per cent, while it depreciated against the NZD and EURO by 0.5 per cent and 3.1 per cent relative to February. On average, the VUV strengthened against the USD and AUD by 0.5 per cent, respectively, in March 2025.

D. Budget Management

The 2026 Budget will be finalised and implemented while the economy is still recovering from the effects of the December 2024 7.3 magnitude earthquake. Despite the ongoing recovery efforts, the Government will continue to strengthen its revenue compliance and at the same time encourage line agencies to raise additional revenue in 2025 through effective tax administration compliance and enforcement of both new and existing taxes. This will ensure the Government can meet its expenditure programs and activities while also managing its debt. On this note, the Government will continue to ensure that a balanced budget is presented and approved by Parliament this year for implementation next year in line with the legal requirements of the PFEM Act [CAP 244.

In addition, the Government continues to acknowledge its development partners and is looking forward to their financial assistance next year to meet Government budget policy priority outcomes that are in line with the NSDP, or the People's Plan 2030.

E. Government Debt and Financing

Effective and efficient Management of public debt is essential for Vanuatu's fiscal sustainability, particularly given recent economic challenges. The Government remains committed to balancing development financing needs with maintaining debt at sustainable levels, guided by the Medium-Term Debt Management Strategy (MTDS) 2025-2028. The strategy allows the Government to effectively identify and Manage risk and be transparent in accounting for public Debt while promote collaboration with relevant stakeholders and development Partners.

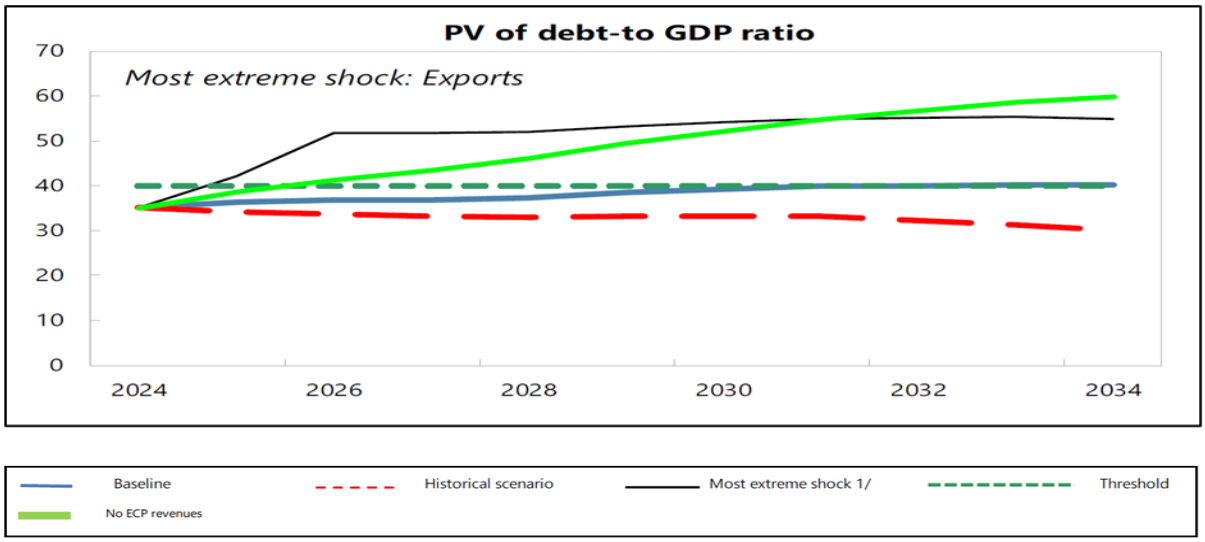
As of June of 2025, preliminary estimates indicate that Vanuatu's total public debt stood at VT 58,793.4 million, representing 42.7% of GDP. This comprised VT 41,034.9 million in external debt (29.8% of GDP, based on forecasted nominal values) and VT 17,758.4 million in domestic debt (12.9% of GDP). For 2026, the total debt is forecasted to increase to VT 63,397.5 million, increasing the debt-to-GDP ratio to 43.3%, with external debt at VT 42,836.4 million (29.3% of GDP) and domestic debt at VT 20,861.0 million (14.3% of GDP).

The total net financing requirements for Fiscal year (FY) 2026 as per national budget was estimated to be VT 64,148.91 million and the Government is anticipated to pursue a mixture of domestic borrowing to finance the 2026 Budget. This includes VT 3,300.0 million for the new domestic borrowings that will be source through the issuance of Treasury bonds and Treasury Bills.

Debt Sustainability and Risks

Vanuatu's debt sustainability faces significant challenges due to economic shocks and revenue uncertainties. The International Monetary Fund's (IMF) recent Debt Sustainability Analysis (DSA) indicates a high risk of overall debt distress, with the present value (PV) of public debt-to-GDP projected to exceed the 55% threshold from 2033 onwards, a year later than previously forecasted. The risk of external debt distress has worsened from moderate to high, with the PV of external debt-to-GDP breaching the 40% threshold in 2024 and 2025, and potentially in later years (2033-2034) under baseline scenarios. An alternate scenario without revenues from the Economic Citizenship Program (ECP) suggests the PV of public debt-to-GDP could breach the threshold as early as 2027, highlighting the program's critical role in fiscal stability.

Chart 3: Forecasts of Vanuatu's Debt-to-GDP Ratio in Net Present Value Terms



The risk of external debt distress for Vanuatu has deteriorated to high (from moderate in the 2023 DSA). While the nominal debt-to-GDP ratio is projected to remain below critical thresholds in the near term (42.1% in 2026), the IMF's analysis underscores long-term risks, particularly under scenarios of reduced ECP revenues or additional economic shocks. Vanuatu's high vulnerability to natural disasters, ranked among the highest globally, necessitates continued investments in resilient infrastructure, further complicating debt dynamics.

To mitigate these risks, the Government is pursuing several strategies:

- **Fiscal Consolidation**: Enhancing revenue mobilization and expenditure efficiency to reduce borrowing needs.
- **Alternative Financing**: Exploring grant-based financing from international partners, such as the World Bank and Asian Development Bank, which provide funding packages worth approximately USD 74.0 million each, renewed every five years. Consultations have been successful to convert existing 50/50 grant-credit arrangements into full grants.
- **Revenue Diversification**: Investigating alternative revenue sources to reduce reliance on the ECP, which has faced international scrutiny and visa-free access suspensions.

In the event of an increase in the IMF's debt distress rating to high, the Government may halt new borrowing and rely solely on grants for project financing, leveraging support from development partners to maintain fiscal space.

Domestic Debt Market Development and Sustainability

The Government recognizes the importance of developing a resilient and sustainable domestic debt market as part of sound public financial management practices. Key market participants currently include two commercial banks, Bank of South Pacific (BSP) and National Bank of Vanuatu (NBV) alongside the Vanuatu National Provident Fund (VNPF), and a small pool of corporate and individual investors. While long-term Treasury Bonds remain the primary instrument in circulation, there is a growing demand for short-term securities, prompting the planned introduction of Treasury Bills in 2026. The Government is also exploring the feasibility of issuing thematic instruments such as blue and green bonds to diversify its financing sources and support sustainable development goals.

Despite structural constraints including limited financial sector depth and macroeconomic vulnerability, the Government remains committed to strengthening debt sustainability. These includes enhancing institutional capacity, improving debt transparency, and aligning domestic debt issuance with medium-term fiscal frameworks and macroeconomic objectives. These efforts are consistent with the principles outlined in the IMF and World Bank's Debt Sustainability Framework (DSF), which emphasize the maintaining of debt at manageable levels, ensuring adequate market access, and minimizing fiscal risks.
Going forward, the Government will adopt a gradual and adaptive approach to market development, prioritizing the establishment of robust legal and regulatory frameworks, improving investor confidence, and fostering collaboration with key stakeholders. These measures aim to ensure that domestic borrowing remains consistent with long-term debt sustainability and economic resilience.

F. Revenue and Taxes

Amongst all other priorities, revenue inflows are very crucial for the Government's entire operations, and it is important that revenue policies are favourable to encourage constant inflows of income, without which, the Government will be unlikely to meet its ever-increasing public expenditure demands and ensure continuity of service delivery across the entire public service.

The total revenue forecast for financial year 2025 was initially VT 39.2 billion, however this has now been revised up to VT 41 billion, down from a much higher revenue forecast for FY 2024 (VT 47 billion). This budgeted forecast reduction is due to the Government's intention not to cover the projected expenditure from the Capital Budget for FY 2025 with recurrent revenue. Simply put, the funding for capital projects in 2025 will not be funded from recurrent revenue but other revenue sources as approved by the Government.

The Ministry of Finance and Economic Management, through its Tax Policy Unit, and the newly established Revenue Review Technical Committee plans to engage with all Ministries and Departments to discuss and agree on their revenue forecast for FY 2026. These forecasts have all been approved by the Ministerial Budget Committee. Generally, there is more sureness in these projections as each sector has indicated that the projections are more realistic than what was forecast for the financial year 2024.

Most ministries and constitutional agencies have indicated upward growth in their revenue forecast for financial year 2025. A few others have not indicated any changes to their forecast but were encouraged to explore options to raise revenue. While the need to expand the current tax base remains, the Government has yet to give its approval to any other policy reforms that could be implemented in the medium term. The likes of a possible salary and wages tax to be implemented in Vanuatu have been discussed, but the Government has not yet decided whether to go ahead with this proposal or not. There still remains a view that the Government can collect more revenue from its current revenue stream if managed well and that compliance is effective.

The revenue forecast for FY 2026 is set at VT 39 billion. Ministries will need to increase their efforts in implementing any new initiatives or improvements to their current initiatives to ensure strong revenue collection for FY 2026.

VAT will remain the highest single revenue source for the Government in Budget 2026. The Department of Customs and Inland Revenue received funding in 2025 to boost their compliance efforts, and stronger collection of VAT and other related taxes is expected. Additionally, the MBC has requested DCIR to fast

track the procurement of a new VAT monitoring system. The project has been delayed for over a year, and the MBC has requested DCIR to ensure priority is given to this policy reform.

In relation to the Citizenship Program, there is a downward revision to the revenue projection for 2025 from VT 10 billion (projected to be collected in 2024) to VT 7 billion, a level which is likely to be maintained in 2026. Since 2021, there has been an ongoing decline in revenue collections from this program due to issues relating to Correspondent Banking and the ongoing changes to citizenship regulations. These concerns have been raised to the highest level and the Government has recently made a few necessary policy amendments to the program, which if they go ahead as planned could trigger a reasonable inflow of revenues in 2025, however the future of this program in the medium term still remains uncertain.

Ongoing Revenue Policy Reforms

The Minister responsible for Finance and Economic Management has recently established a Revenue Governance Committee and a Revenue Technical Committee to assist the Government in its effort to expand domestic revenue. Ministries are also encouraged to establish their own Revenue Governance Committees to ensure ownership and successful implementation of new revenue initiatives.

Vanuatu Commitments with OECD Global Forum and EU Code of Conduct

Vanuatu continues its efforts to meet international standards of good tax practices. This includes the ones set by the OECD's Global Forum on Transparency and Exchange of Information for Tax purposes (Global Forum) and the European Union's Code of Conduct Group (EU CoCG).

Vanuatu is on the EU List of Non-Cooperative Jurisdictions for Tax Purposes due to its facilitation of offshore structures and arrangements that generate profits without real economic substance. Vanuatu has introduced two bills that are pending parliamentary approval. These are:

- Bill for the Resident Entity (Economic Substance) Act and
- Bill for the Resident Entity (Consequential Amendments) Act.

These bills, if they pass through Parliament, should assist Vanuatu in its delisting process with EU Code of Conduct group.

Outstanding Revenue

The concerns surrounding unresolved revenue payments within line ministries and agencies will remain until all outstanding payments are cleared. Adequate policies must be put in place to control the accumulation of unpaid tax dues. Current outstanding non-tax revenue stands at around VT 2.5 billion with outstanding VAT revenue likely to be in excess of VT 3 Billion.

The main reasons for the Government not yet fully addressing its outstanding revenue include:

I. A large proportion of current outstanding debts have exceeded their status of limitation validity;
II. Accumulation of penalties and lack of stringent compliance efforts from Departments,
III. Companies have closed down or liquidated and company owners may have already left the country or died with taxes owed still being recorded as outstanding.

The National Write-off Committee is now inactive, but the Ministry intends to revive it so that it may continue working with other authorities to handle the backlog of outstanding revenue. This can ensure an in-depth assessment of the outstanding revenue balances that will better inform decisions to write-off as necessary so that outstanding balances represent a true and fair view of the Government's receivables.

The implementation of all approved Government expenditure programs and activities for the budget year depends on revenue collection. The Government will continue to boost its revenue collection by strengthening the administration, compliance, and enforcement of existing tax laws as well as newly introduced fees and charges.

G. Expenditure Programme and Policies

The 2026 Budget Appropriation will be financed through a combination of existing and new revenue-generating mechanisms, receipts from the Government's major development partners, and, if necessary, the issuance of Government bonds to address any shortfalls. It will incorporate both Government and donor financing to efficiently pursue and achieve national policy goals and objectives, aligning resource allocation with the ten budget policy priorities outlined in the 2026 budget policy statement. This approach aims to prevent duplication of programs and resources, as well as support effective implementation of expenditure programs and policies. As part of its commitment to sound financial management and fiscal discipline, the Government seeks to achieve a balanced budget in 2026 while improving service delivery and promoting economic growth through strategic allocation of financial resources.

4. New Policy Proposals (NPPs)

The allocation of the 2026 fiscal space towards NPPs will fall in line with the ten budget policy priority outcomes identified in 3.A. The NPPs will be considered only if they have been approved by the head of the agency and submitted in the Government financial management systems with supporting documents.

In addition, NPPs must be:

- able to be accommodated within the overall aggregate fiscal envelope;
- accompanied by well-researched and detailed proposals to reinforce the Government's key policies, programs, and activities;
- within the capacity of the Ministry to implement over the suggested time frame;
- able to expand and develop the economic capacity and growth rate of the country;
- financially sustainable (if the activity is to become ongoing activity) and
- within the capacity to generate greater revenue potentials to the Government

5. Economic and Fiscal Targets for 2026

The following economic, financial and fiscal policies, objectives, and target are crucial for financial resource allocation and at the same time for achieving a balanced budget in 2026.

Table 16: Economic and Fiscal Policy Targets

Economic and Fiscal Policy Targets	Long-term Economic and Fiscal policy objectives
Budget balance	

Balanced Budget	Recurrent balance is positive over the medium-term.
Revenue Recurrent revenue is forecast to be at least 30.0 per cent of GDP	Revenue is consistent with the balanced budget objective
Expenditure Recurrent expenditure is forecast to be at least 30.0 per cent of GDP	Expenditures are consistent with the balanced budget objective.
Debt Ensure that the Net Present Value (NPV) of external debt to GDP is less than the threshold of 40.0 per cent of GDP.	The annual Nominal Public and Publicly Guaranteed Debt-to-GDP ratio remains below 60 per cent associated with disaster and climate change-related risks.
Economic Growth Forecast Real GDP Growth rate of 3.7 per cent	The annual average economic growth rate is higher than the population growth rate.
Inflation Inflation forecast to be within its target range of 0-4 per cent.	The annual inflation rate remains below 4.0 per cent.

6. Conclusion

This Budget Policy statement is finalised and presented in line with section 9, 10 and 22 of the Public Finance and Economic Management Act [CAP 244] and it will be used as a basic guiding principle to allocate and finalise 2026 budget appropriation that will be appropriated in Parliament before the end of this financial year. On this note, the 2026 budget appropriation will be financed by both the Government and its development partners to meet the Government's expenditure programs, policy objectives and targets that were outlined in this budget policy statement as well as in the National Sustainable Development Plan (NSDP) – the People's Plan 2030, to enhance economic growth, service delivery and wellbeing for all the people in Vanuatu.

6 Annex 1: Details of Supplementary Appropriations within Budget 2025

Table 17: Supplementary Appropriation of additional amounts in 2025 under section 34 and 34C of the Public Finance and Economic Management ACT [CAP 244], in VT

Agency	Description	Cost Centre, Program and Activity	Amount
State Law Office	Climate Justice Litigation - Leading the ICJ advisory opinion on climate change	4-11AA-CFAA-OVER	100,000,000
State Law Office Total			**100,000,000**
Ministry of Prime Minister	Donation of equipment and agricultural supplies	4-42AA-MPBA-OVER	8,500,000
Ministry of Prime Minister Total			**8,500,000**
Ministry of Agriculture, Livestock, Forestry and Biosecurity	Ecosystem Restoration and Sustainable Land Management in Tongoa	4-72FD-MAFA-OVER	231,144,120
	Enhanced Pacific Biosecurity Partnership Programme	4-49DA-MADA-OVER	689,070
Ministry of Agriculture, Livestock, Forestry and Biosecurity Total			**231,833,190**
Ministry of Education and Training	Mobility to French Polynesia to strengthen Vanuatu's tourism managers	4-88AB-MEDA-OVER	6,450,000

	Family Life Education promote healthy lifestyle choices and health seeking behaviours to improve population health and well-being.	4-53AA-MECA-OVER	17,428,185
	RERIPA CALL 3: Living labs - Climate Change and the future of coastal communities: transformation of sociality, livelihoods and lifestyle in the South Pacific	4-53AB-MECA-OVER	11,879,066
	The Regional Network for Research	4-53AA-MEHA-OVER	6,713,805
	Workshop on traditional House/Shelter (An exchange of traditional knowledge and skills expertise	4-54AA-MEIA-OVER	2,858,568
	Collection and Publication of traditional Costumes	4-54AA-MEIA-OVER	3,168,674
	System Capacity Grant	4-53AB-MECA-OVER	19,404,739
	NZ-Earthquake Recovery- Education infrastructure	4-53AA-MEHA-OVER	494,229,000
Ministry of Education and Training Total			**562,132,037**
Ministry of Finance and Economic Management	Agriculture Development Fund	2-3512 -MFEC-OVER	100,000,000
	Maritime Delimitation Fund	2-3512- MFEC-OVER	500,000,000
	Financial Emergency Supplementary for the Earthquake Response and Recover Efforts.	2-3518-MFKB-OVER	1,164,342,129
Ministry of Finance and Economic Management Total			**1,764,342,129**

Ministry of Tourism, Trade, Commerce and Ni Vanuatu Business	Examining and developing gender-equitable communication and training for improving beef production of smallholder farmers in Vanuatu	4-97AI-MTDG-OVER	6,777,773
	Advancing the SDGs by improving livelihoods, social protection, human rights and resilience of vulnerable communities via economic diversification and digital transformation	4-97AI-MTDG-OVER	4,447,900
Ministry of Tourism, Trade, Commerce and Ni Vanuatu Business Total			**11,225,673**
Ministry of Foreign Affairs, International Cooperation and External Trade	Top up Operational Budget for Overseas Mission	2-41AB- MOBA - OVER	116,851,998
	International Commitments at High level Meetings	2-41AB- MOBA-OVER	20,000,000
	Outstanding Medical Bills for Former Amb John Licht	2-41AB -MOBA - OVER	27,698,741
Ministry of Foreign Affairs, International Cooperation and External Trade Total			**164,550,739**
Ministry of Internal Affairs	Governance for Resilient Development in the Pacific	4-2404-MIEF-OVER	34,534,372
	Strengthening the Capacity of the Vanuatu Police Force	4-2602-MIDC-OVER	25,124,128
	Donation of Police Equipment	4-2602-MIDC-OVER	40,000,000
	Recovery Strategic Plan for Port Vila	4-2402-MICB-OVER	211,812,000
Ministry of Internal Affairs Total			**311,470,500**
Ministry of Lands, Mines and Water Resources	Outstanding and New Acquisition Works Fundings	2-6601- MLED - OVER	15,000,000
	Procurement of River gauging Unit	2-6904- MLGB-OVER	3,000,000

	Enhancing Adaptation and Community Resilience by Improving Water Security in Vanuatu	4-6904-MLGA-OVER	94,769,538
Ministry of Lands, Mines and Water Resources Total			**112,769,538**
Ministry of Health	Strengthening Family Planning & Sexual and Reproductive Health Programs	4-61UI-MHCC-OVER	17,569,128
	Clinical Dietetics Guidelines Program in Shefa and Sanma Province	4-61UB-MHCC-OVER	5,500,000
	Strengthening water, Sanitation and Hygiene Programs and Practices in Vanuatu	4-61UK-MHCC-OVER	1,818,696
	Establishment of Field Epidemiology Training Program in Vanuatu	4-61VA-MHCC-OVER	7,646,817
	Supporting Vanuatu's Ministry of Health in accelerating their pursuit of national-wide malaria elimination goal	4-61UC-MHCC-OVER	3,600,000
Ministry of Health Total			**36,134,641**
Ministry of Infrastructure and Public utilities	Pekoa Airport	2-78B3- MUFB - OVER	398,000,000
	Repairs of five key China-funded Government buildings: PM's Office, Foreign Affairs, MFEM, Presidential Palace and Convention Center	4-78A2-MUFA-OVER	300,000,000
	Grant assistance for provision of heavy machinery for disaster recovery	4-78A2-MUFA-OVER	320,000,000
	Kumul Highway Rehabilitation	4-78A2-MUFA-OVER	296,742,670
Ministry of Infrastructure and Public utilities Total			**1,314,742,670**
Ministry of Youth Justice and Social Welfare	Vanuatu Australia Policing and Justice Program (VAPJP) III	4-30AA-MJAB-OVER	216,000,000

	Vanuatu Australia Policing and Justice Program (VAPJP) III	4-30AA-MJAB-OVER	234,000,000
	Prioritizing the Early Years in Vanuatu's Human Development: Early Childhood Development (ECD)	4-30AA-MJAB-OVER	8,000,000
	Assistance provided by the Gov of The People's Republic of China	4-2501-MJCA-OVER	3,000,000
	National Arts Festival	2-30AA-MJAB-OVER	61,350,000
Ministry of Youth Justice and Social Welfare Total			**522,350,000**
Ministry of Climate Change Adaptation, Geohazards, Meteorology and Energy	Joint observation Station Cooperation between the VMGD and the NOTC, the State Oceanic Administration, People's Republic of China	4-75DC-MGCA-OVER	61,616,505
	The Modernization of weather forecasting and early warning systems in Vanuatu - VMGD	4-75DC-MGCA-OVER	197,156,770
	The Modernization of weather forecasting and early warning systems in Vanuatu - VMGD	4-75DC-MGCA-OVER	179,995,570
	Enhancing Seismic/Volcano monitoring and early warning system on Tanna Island	4-75DD-MGCD-OVER	7,000,000
	Navigating a Sea of Bias in Volcanic Gas Emission Studies	4-75DD-MGCD-OVER	7,500,000
	Strengthening capacity in the Energy, Agriculture, Forestry and other Land-use Sectors for Enhanced Transparency in the Implementation and Monitoring of	4-98BA-MGHA-OVER	23,310,940

	Vanuatu's Nationally Determined Contribution		
	Pacific Regional Invasive Species Management Support Service (PRISMSS) - Restoring Island Resilience Project	4-6401-MGEA-OVER	1,415,192
Ministry of Climate Change Adaptation, Geohazards, Meteorology and Energy Total			**477,994,977**
Total for ALL Agencies			**5,618,046,094**

Source: *Ministry of Finance and Economic Managements*