

REPUBLIC OF VANUATU

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FISCAL YEARS 2023 - 2026

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT

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1. INTRODUCTION

The overall primary legal framework for public debt management in Vanuatu is included in the Public Finance and Economic Management Act [CAP 244]. It gives the Minister of Finance the authority to borrow funds, externally and domestically, and to issue guarantees. In addition, Part IV of the PFEM Act outlines specific principles of responsible fiscal management. These include; (a) reducing and then managing total Government debt at prudent levels; (b) achieving and maintaining levels of the State net worth that provide a buffer against factors that may impact adversely on the State's net worth in the future; (c) managing prudently the fiscal risks facing the State; and (d) pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years. The Government may depart from these principles, but only in exceptional circumstances. The departure must however be justified, temporary, and disclosed to the Legislative Assembly and the time frame within which the Government expects to return to the principles has to be specified.

The Medium-Term Debt Management Strategy (MTDS) is the Government's borrowing plan to be implemented over the next four years (2023-2026) to achieve the desired composition of the Government's debt portfolio. It captures the Government's preferences with regard to the trade-off between cost and risk. It also operationalizes its debt management objectives such as ensuring the Government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk. The strategy has a strong focus on managing the risk exposure embedded in the debt portfolio. Specifically, potential variations in the cost of debt servicing and its impact on the budget over the medium term, in particular, identifying how cost and risk vary with the composition of the debt. The analysis and recommendations are based on analytical work undertaken using the MTDS Analytical Tool.

1.1. Key Policies and Objectives

The key debt policies that guided us to develop the MTDS 2023-2026 are:

- to lower the cost of debt through concessional financing from multilateral and bilateral partners;
- to ensure consistent domestic market operations and clear investor guidance;
- to maintain an optimal cost and maturity structure for the debt portfolio to ensure prudent liability management;
- development of the domestic bond market to focus more on liquidity, transparency, secondary market trading, settlement mechanisms, and investor diversification;
- to continue prepaid the semi-concessional loans to reset the debt-to-GDP ratio to a downward trajectory in the medium term; and
- the Government bonds shall purposely be for raising funds towards the Government's capital infrastructure projects and programs only.

The above policies have been incorporated in the formulation of the MTDS for fiscal years 2023-2026 which aims to achieve the following debt management objectives:

i. to minimize the medium to the long-term cost of Government debt within prudent levels of risk, and
ii. to support the development of a well-functioning domestic market for debt securities.

1.2. Scope of debt

The scope of the present strategy includes the explicit direct debt of the Central Government and its guarantees issued to State-owned Enterprises (SOEs). The analysis undertaken encompasses both domestic and external Government borrowing.

Furthermore, it also covers guarantees issued to SOEs. Although these guarantees have not been called, some GBEs, specifically the airline company, the Air Vanuatu Operations Limited (AVoL) and the Vanuatu Institute of Technology (VIT) have experienced financial difficulties since the COVID pandemic and so currently possess uncertain, financial viability. There are however immediate arrangements in-place, by the Government to clear VIT's outstanding loan with its creditor thus extinguishing the guarantee born to the Government. Furthermore, for the past two years, the Government has provided advances to the airline to meet its financial obligations (see Box 1 below) and sustain its ongoing operations. The analysis assumes that the Government of Vanuatu will not issue any new guarantees during the period covered by the DMS.

The strategy excludes debts of other state-owned enterprises (SOEs). These other guaranteed debts have been serviced and are not expected to impact the Government's financing requirements during the strategy period. Lastly, the liabilities of the Reserve Bank of Vanuatu (RBV), including securities issued in the name of the central bank for monetary policy purposes, are regarded as outside the scope of the Government's debt management and do not form part of this analysis.

BOX 1 – AIR VANUATU

At end-December 2021, the Government of Vanuatu had issued guarantees to the amount of VUV 1.89 billion (USD 17 million), of which 94 per cent had been extended to Air Vanuatu Operations Limited (AVoL). These guarantees have been provided to the Vanuatu National Provident Fund (VNPF), the National Bank of Vanuatu (NBV), and the commercial bank BRED.

In March 2021, the Government decided to take temporary control of the company to restructure it and reduce its dependency on State financing. The restructuring process has been ongoing (including the review of an aircraft purchasing contract for its cancellation) and a proposal was put forward (such as splitting the company into two units, one domestic which is currently profitable, and an international airline which is currently operating at a loss). However, no decision has been finalized so far.

Given the fiscal risk associated with this company and the fact that the Government is already providing financial support to it, its cash flow projections will be incorporated into the analysis and design of this debt management strategy.

Sources: Department of Finance and Treasury and IMF – Article IV, June 2021, Debt Sustainability Analysis

1.3. Cost and Risks to be managed

In designing the MTDS, certain benchmarks have been established for cost and market risk indicators to ensure that the medium-term debt-management strategy helps achieve the Government's debt management objectives. Some of the costs and risks to be managed include:

i. foreign currency (FX) risk;
ii. interest rate risk; and
iii. refinancing risk.

The debt management strategy document will guide Government borrowing decisions in FY2023-FY2026 to support Government's capital infrastructure projects and programs while being cognizant of the cost of debt and minimizing risks embedded in the current debt portfolio.

2. EXISTING DEBT PORTFOLIO

Vanuatu has a moderate level of public and publicly guaranteed debt and remains at a moderate risk of debt distress. At end December 2022, public and publicly guaranteed debt was VUV 53 billion, equivalent to 44 per cent of Gross Domestic Product (GDP).

2.1. External Debt Portfolio

External debt accounted for 78 per cent of publicly and publicly guaranteed (PPG) debt, as at the end of December 2022. Outstanding external debt amounted to VUV 41 billion, equivalent to 34.5 per cent of GDP. Bilateral creditors accounted for the largest share of the external debt, (57 per cent of total PPG external debt) with Exim Bank of China and JICA of Japan being the largest creditors (representing 31 and 14 per cent, respectively). Multilateral creditors accounted for 41 per cent with IDA and the Asian Development Bank being the largest lenders with 26 and 15 per cent of total external PPG debt. External guarantees amounted to one per cent. The Government has followed a borrowing policy of contracting external debt on concessional terms with a grant element of at least 35 per cent. Figures 1 and 2 below, disclose the compositions of external debt by creditors and by creditor type.

Figure 1: Composition of external debt by creditor type (end 2022)

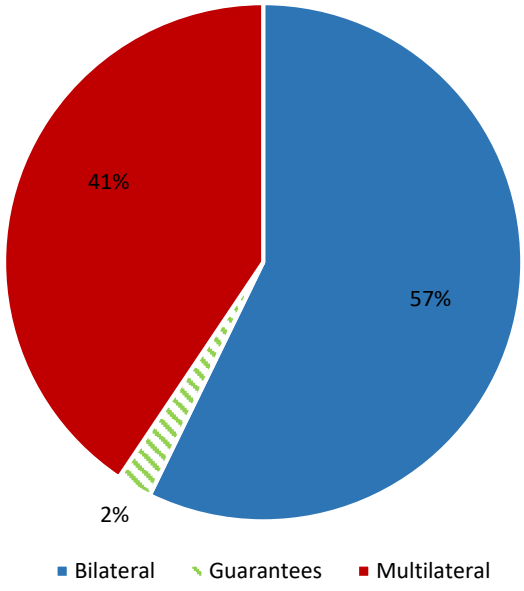
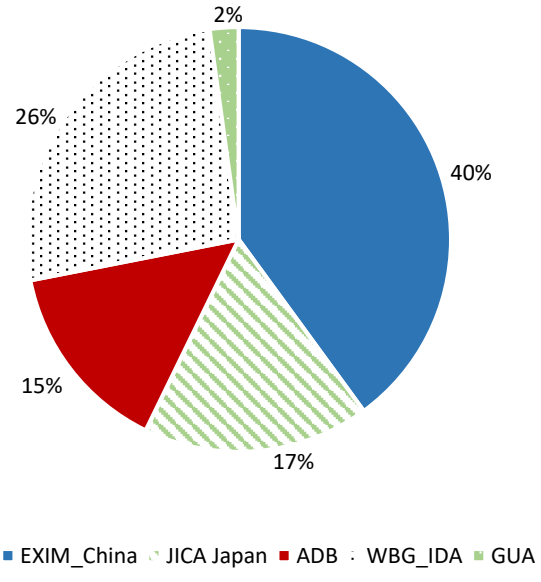


Figure 2: Composition of external debt by creditor (end 2022)



Source: DoFT

2.2. Currency Composition

Vanuatu has contracted external loans in three foreign currencies: the Chinese Yuan (CNY), the Japanese Yen (JPY), and the Special Drawing Rights (SDR). At the end of 2022, their respective compositions of the external debt portfolio were; 41 per cent SDR, 41 per cent CNY and18 per cent JPY.

After decomposing the SDR in its basket of currencies, the loan portfolio denominated in CNY represents the largest share of the external currency position by 46 per cent, as illustrated in Figure 3. It is followed by the Japanese Yen with 21 per cent, the US Dollar with 17 per cent, the Euro with 13 per cent, and the British Pound (GBP) with 3 per cent.

Figure 3: Currency composition (end 2022)

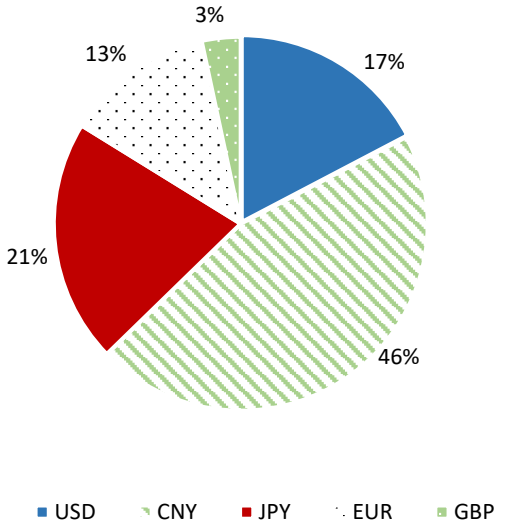
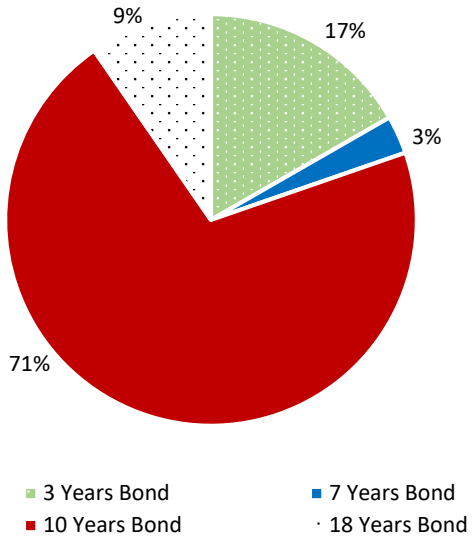


Figure 4: Domestic debt by maturities (end 2022)



Source: DoFT calculations

2.3. Domestic Debt Portfolio

Vanuatu has a low burden of domestic debt. At the end of 2022, it was VUV 11.5 billion, representing 9.5 per cent of GDP. This is the result of the Government's policy of redeeming bonds as they mature and issuing new debt as needed resulting in a highly irregular, issuance calendar. The domestic debt portfolio is comprised, in its totality, by marketable instruments. The Government has issued, on ad-hoc basis, various financial instruments in the market, ranging from3, 7, 18, and to mostly 10-year bonds. At the end of 2022, the portfolio was comprised of 71 per cent (10 year-bonds), 3 per cent (7 year-bonds, 17 per cent (3-year bonds) and 9 per cent (18-year bonds), as shown in Figure 4 below. Other maturities have been fully redeemed. Bonds are normally issued through auctions conducted by the Reserve Bank of Vanuatu, (as the fiscal agent) at par value, with market participants determining the coupon rate.

Central Government's debt is primarily held by the public corporations and the commercial banks. The major bondholders are the Vanuatu National Provident Fund (VNPF) which is the largest investor for the long-term Government securities, the Reserve Bank of Vanuatu, and the National Bank of Vanuatu. There remains excess liquidity in the market, suggesting that the Government would benefit from investor relations strategy, which can improve security issuance.

2.4. Cost and Risk of Existing Debt Portfolio

Vanuatu has a relatively low cost associated with its overall debt as reflected by the ratio of interest payments to GDP at 0.9 per cent at end-2022. For the overall portfolio, the weighted average interest rate is about 2.1 per cent. This is primarily due to the larger proportion of external debt in the country's portfolio. Most external loans are contracted on highly concessional terms. This was also due to the relative moderate cost of domestic debt and its relative size compared to external debt. The domestic interest payment was equivalent to 0.47 per cent of GDP at end-2022 and a weighted average interest rate of 5.4 per cent.

Foreign currency risk is the most significant vulnerability of the portfolio. Public and publicly guaranteed foreign denominated debt accounted for 80 per cent of the portfolio. Furthermore, the

percentage of short-term external debt to international reserves stood at 26.6 per cent. This risk is mitigated by the long maturity structure and low interest rates of external debt.

Refinancing and interest rate risks are low. Average Time to Maturity (ATM) and Ability-to-Repay (ATR) are both 9.5 years and the share of debt maturing in one-year is 3.9 per cent of GDP or 8.9 per cent of total debt. This is mainly due to the large proportion of external debt, which has been contracted with long-term maturities. However, for domestic debt, the risk is slightly higher: ATM and ATR are 7 years, and debt refixing in 1 year represents 10.6 per cent of the portfolio. The risks are mitigated by the high liquidity experienced in the country's financial market. The entire portfolio has been borrowed on fixed-term interest rate.

Table 1: Cost and risk indicators of the existing portfolio (end 2022)

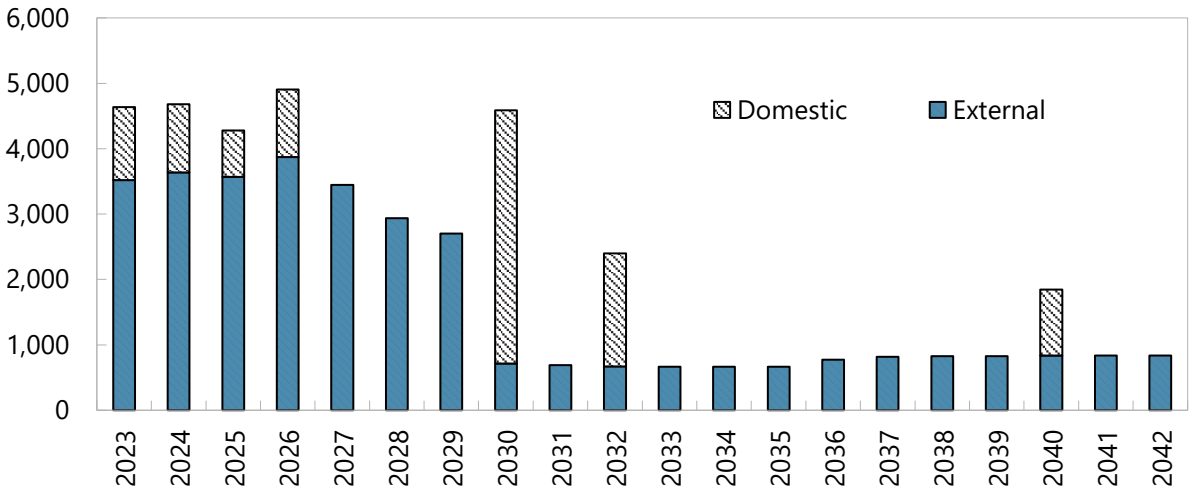
Risk Indicators		**External debt**	**Domestic debt**	**Total debt**
Amount (in millions of VUV)		40,581.6	10,523.2	51,104.8
Amount (in millions of USD)		346.9	89.9	436.8
Nominal debt as percent of GDP		33.7	8.7	42.5
PV as percent of GDP[1]		24.2	8.7	33.0
Cost of debt[2]	Interest payment as percent of GDP[3]	**0.44**	**0.47**	**0.91**
	Weighted Av. IR (percent)	**1.3**	**0.0**	**1.0**
Refinancing risk[2]	ATM (years)	**10.1**	**6.7**	**9.5**
	Debt maturing in 1yr (percent of total)	**8.2**	**10.6**	**8.7**
	Debt maturing in 1yr (percent of GDP)	**3.0**	**0.9**	**3.9**
Interest rate risk [3]	ATR (years)	**10.1**	**6.7**	**9.5**
	Debt refixing in 1yr (percent of total)	**8.2**	**10.6**	**8.7**
	Fixed rate debt incl T-bills (percent of total)	**100.0**	**100.0**	**100.0**
	T-bills (percent of total)	**0.0**	**0.0**	**0.0**
FX risk	FX debt (percent of total debt)			79.4
	ST FX debt (percent of reserves)			26.4

Notes:
[1]PV as percent of GDP is calculated based on projected debt service payments where discount rate of 5% is applied to those instruments on concessional or semi-concessional terms.
[2] Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.
[3]Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt at 2022 to 2022 GDP.

The redemption profile (Figure 5) below illustrates the refinancing risks in the debt portfolio. It reflects the debt structure with the long-term repayment period for the external debt and medium-term period

for domestic debt. The figure indicates the Government's willingness to prepay some of its outstanding non-concessional loans from 2023 to 2029.

Figure 5: Redemption Profile in VUV million (2022)



3. ENVIRONMENT FOR DEBT MANAGEMENT

3.1. Macroeconomic Environment

In 2020, Vanuatu's economy contracted by 5.0 per cent. In that year, the country underwent two major shocks: (i) the Tropical Cyclone Harold and (ii) COVID-19. The latter saw Vanuatu completely shutting its borders to international tourists until a soft reopening in July 2022. According to the latest Government estimates; economic growth is now expected to grow by 3.2 per cent in 2022 (0.4 per cent higher than estimated in 2021) with a further robust growth expected for 2023 at 5.3 per cent, and 4.9 per cent in 2024.

Growth is projected to be driven by the construction sector. The economy is expected to experience robust and continued growth, at a rate of about 22.9 per cent in 2022 and during the period under analysis. The main drivers of growth in the construction sector are the sub-sectors of ongoing road projects such as; in Tanna and the Vanuatu Climate Resilience Transport Project, and Government buildings such as; MoF, the Ministry of Foreign Affairs and the Hall of Justice The industry sector is also expected to experience similar growth over the coming three years and is projected to grow by 12.7 per cent and 13.6 per cent in 2022 and 2023 respectively. It will continue to be driven by the Government's infrastructure investment, especially on electricity and water developments. The other driving force behind economic growth during the period of the analysis is the Agriculture, Forestry, and Fishing sector which is expected to grow by 2.3 percent in 2022 before accelerating further to 4.7 percent in 2023.

Inflation declined to about 1 percent at end-2021. In 2022, however, the reopening of international borders and the war in Ukraine disrupting global supply chains have started to put upward pressure on Vanuatu's overall prices. Annual headline inflation increased to 2.7 percent in March compared to the 0.7 percent in the last quarter of 2021 (mainly driven by food and fuel prices) yet remaining well within the RBV's internal target of 0-4 percent range. Vanuatu's overall price levels are expected to ease in 2023 onwards due to the expected ease in global prices in particular food and fuel prices.

3.2. Policy and Budget Environment

Over the years, the Government has adopted a prudent fiscal strategy by implementing policies that promote growth whilst maintaining fiscal and macroeconomic stability. Given the current slow economic conditions, the fiscal policy environment has become more challenging, as diminished revenues and high expenditures require a substantial amount of borrowing. Ensuring the long-term sustainability of the Government's debt is a key focus of the Government for the coming years. Given the medium-term revenue forecasts, large expenditure categories like public sector wages, grants to Government entities, non-strategic capital projects, and other operational expenditures may need to be scaled back or deferred in the medium term to ensure the targeted deficits are met.

In regards to monetary policy, the Reserve Bank of Vanuatu (RBV) has continued to maintain an accommodative monetary policy stance, providing the necessary stimulus to the domestic economy to protect against any possible domestic or external risk conditions.

Government expenditures have remained on target, so far in 2023. Expenses in 2023 have reached VUV 6.9 billion as at March which is 20.3 percent of the 2023 budget target of VUV 34 billion.

The primary balance is expected to remain stable throughout the period. While the Government's budget shows a VUV 2.3 billion primary surplus. This primary surplus was mainly due to a low frequency of expenditure within the first three months due to the supply bill and also a disbursement of VUV 1 billion from the contingency financing of the twin cyclones. Table 1, below, shows the main fiscal assumption for the period using the Government's projections.

Table 1: Macroeconomic Framework 2022-2026

VUV millions	2022	2023	2024	2025	2026
Budgeted Revenue and Grants	29,915	35,196	36,912	38,169	39,337
Budgeted Primary Expenditure	32,098	38,681	38,571	41,257	42,155
Budgeted Interest Payments	999	1,080	924	813	739
International Reserves (of USD Million)	113	113	113	113	113
GDP	120,381	128,822	138,642	146,663	154,295

3.3. Key Macroeconomic Risks

Risks to the economic outlook of Vanuatu are tilted towards the downside. The first and foremost immediate risks surrounding the economic outlook would be a continuous delayed on infrastructure projects that could lead to a prolonged negative impact on economic activity, recovery prospects and growth. Given that global growth has an important bearing on commodity demand and prices, any change in global demand for commodities from main importers could trigger a rally in prices and vice-versa. Lower than anticipated economic growth in the baseline scenario caused by adverse weather conditions, especially in the agriculture and fishery sectors, could also have a broad-based negative impact that spills over to the fiscal outcome, inflationary expectations, and also balance of payments deterioration with pressure on the exchange rate.

Table 2: Macroeconomic Risks

Risks	Likelihood of Risk Event	Implication for Debt Management Strategy
Growth Continuous delayed on infrastructure projects	Medium	Increased fiscal requirement and deterioration of debt ratios.
Inflation Inflation, driven by imported inflation, is higher than projected.	Medium	Debt service costs may increase, if domestic yield curve adjusts to higher inflation.
Natural Disasters Worsening of weather conditions, affecting the agriculture, fishery and forestry sectors.	Medium	Broad-based negative impact that spills over to the fiscal outcome, inflationary expectations, and also the balance of payments deterioration with pressure on the exchange rate.

3.4. Policy Challenges

Vanuatu's debt securities market remains underdeveloped with activities more concentrated in the primary market and having an inactive secondary market. The bond market is fragmented, with the presence of only a few large investors, such as VNPF which are traditionally “hold-to-maturity” investors which prefer long tenors. This is one of the main areas of concern in the development of the bond market. This will be addressed in the medium term with the introduction of a Central Securities Depository.

4. MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2021-2023: ANALYSIS AND STRATEGY

4.1. Description of the Stylized Debt Instruments

Given the existing debt portfolio in Vanuatu and proposed borrowing strategies (see below), a total of 14 stylized debt instruments were created for the analysis. The stylized debt instruments included seven VUV and seven USD-denominated instruments. Eight financial instruments are already in the current portfolio, and six have been introduced to implement alternative strategies. All domestic debt instruments are market-based instruments, whereas all external debt is on concessional or semi-concessional terms (China).

Table 3: Description of Stylized Debt Instruments

Instrument Nr.	Instrument Type / Name	Fix / Var/ T-Bills	Maturity (Years)	Grace (Years)	Currency (3-letter code)
External					
USD_2	Exim Bank - China	Fix	30	10	USD
USD_3	JICA_Japan	Fix	40	10	USD
USD_4	ADB	Fix	31	8	USD
USD_5	IDA	Fix	40	10	USD
USD_6		Fix	10	1	USD
USD_7	AIFFP	Fix	40	10	USD
USD_8	IFAD	Fix	40	10	USD
USD_9	Other (AIIB, Korea, Kuwait, Saudi)	Fix	25	8	USD
Domestic					
VUV_12	10 years_Bond	Fix	10	9	VUV
VUV_13	12 years_Bond	Fix	12	11	VUV
VUV_14	14 years_Bond	Fix	14	13	VUV
VUV_15	16 years_Bond	Fix	16	15	VUV
VUV_16	17 years_Bond	Fix	17	16	VUV
VUV_17	18 years_Bond	Fix	18	17	VUV
VUV_18	19 years_Bond	Fix	19	18	VUV
VUV_19	20 years_Bond	Fix	20	19	VUV

4.2. Baseline Interest and Exchange Rate Assumptions

The analysis that follows is based on the Government's projections and the assumptions of the expected market (i.e. interest and exchange) rates during the strategy period (i.e., 2023-26). The assumption for the path of the nominal exchange rate is based on the inflation differential between Vanuatu and the United States. The average gap between these two rates leads to an average 2 per cent of depreciation of the Vatu against the USD.

Table 4: USD/VUV Exchange Rate Projections 2023-2026

	2023	2024	2025	2026
Exchange Rate	119	122	124	127
Depreciation (per cent)	2.00	2.00	2.00	2.00

Source: DoFT

For concessional and semi-concessional fixed-rate loans, a constant interest rate assumption was made for the four years of the strategy period. These instruments are non-market debt instruments and the conditions granted by these creditors to Vanuatu are not expected to change during the strategy period. Interest rate projections are shown in the table below.

For domestic debt, pricing is based on the actual coupons issued during 2022. For one year T-Bills, it is based on a 6-month RBV Note issued in the market annualized with a risk premium.

Table 5: Interest Rates Projections 2022-2024 (per cent)

External Debt Instruments	**2023**	**2024**	**2025**	**2026**
China	2.00%	2.00%	2.00%	2.00%
JICA_Japan	0.55%	0.55%	0.55%	0.55%
ADB	1.50%	1.50%	1.50%	1.50%
IDA	0.75%	0.75%	0.75%	0.75%
AIIFP	1.50	1.50	1.50	1.50
IFAD	0.75	0.75	0.75	0.75
Other (AIIB, Korea, Kuwait, Saudi)	1.50	1.50	1.50	1.50
Domestic Debt Instruments				
10 years_Bond	5.64%	5.64%	5.64%	5.64%
12 years_Bond	5.64%	5.64%	5.64%	5.64%
14 years_Bond	5.64%	5.64%	5.64%	5.64%
16 years_Bond	6.64%	6.64%	6.64%	6.64%
17 years_Bond	6.64%	6.64%	6.64%	6.64%
18 years_Bond	6.65%	6.65%	6.65%	6.65%
19 years_Bond	6.647%	6.647%	6.647%	6.647%
20 years_Bond	7.648%	7.648%	7.648%	7.648%

Source: DoFT

4.3. Sources of Financing

A. Domestic Financing

The domestic market is currently at a nascent stage of development. Government securities are only issued in the form of Treasury Bonds with mostly 10-year maturities. However, the Government has further planned for 20-year bond maturities. On the other hand, the Government has no immediate plans to implement a benchmark building strategy, whereby issuing in limited number of tenors in sufficient volumes. Vanuatu has no immediate plans to implement a benchmark-building strategy, issuing a limited number of tenors in sufficient volumes, resulting in limited liquidity of outstanding securities. To develop the domestic bond market, the Reserve Bank of Vanuatu and the Department of Finance and Treasury are working together to implement the Vanuatu Central Securities Depository System (VCSDS) that will change how we issue and conduct auctions on Government bonds, including the issue of the Domestic Bond Guideline. The Government will start developing an Investor Relations Strategy, including the development and publication of an Annual Borrowing Plan and the Issuance Calendar.

In Vanuatu, there are various challenges to developing the domestic debt market. The Government will have to build a communication strategy between the Government and market participants. For example, producing debt-related Government publications (other than the Quarterly Debt Bulletin) for market participants. Furthermore, there are no regular auctions throughout the year, these are just announced to investors, a week in advance (sometimes even just days). This occurrence can limit and hinder the demand for bonds, as investors may not have sufficient time to organize their portfolio.

Another obstacle for the development of the domestic debt market is the lack of a secondary market for Government securities and an underlying repo market. Although the Reserve Bank is introducing new measures to improve the functioning of the securities market, the use of materialized Government bonds prevents the development of this type of market. The RBV is introducing a central fully automated registry system that would allow the authorities to issue de-materialized instruments. Additionally, the RBV will be unveiling, in the coming months, a fully automized payment system that will improve transparency and efficiency in the market.

The Government, as part of the 2023 - 2026 MTDS, will develop closer engagement with the market participants.

Non-resident investors can participate in the market through local commercial banks. However, a major existing constraint is that the Vatu is not a convertible currency outside of Vanuatu. Furthermore, the commercial banks are experiencing difficulties in securing corresponding banks in order to make transfers abroad.

B. External Financing

Official creditors are the main source of external financing for the Government. Access to multilateral concessional fixed-rate, long-term financing through IDA and ADB's concessional window provides the bulk of external financing. On the bilateral side, the Exim Bank of China provides the bulk of the financing, albeit at a higher cost. Chinese financing flows come through an opaque disbursement process whereby Chinese companies implementing projects are paid in China with very little control on the part of the Government.

Going forward, the Government aims to reduce Chinese inflows and diversifying external sources of financing. The Government through MFEM has already established contacts with AIFFP to attract additional funding sources. External financing on commercial terms will not be considered during the strategy period.

4.4. Nominated Strategy and Target Indicators

The analysis of the results for all strategies shows that developing the domestic debt market would be beneficial to the country. The nominated Strategy indicates that not only would the country be able to diversify its sources of financing, but it would also reduce its exposure to foreign exchange. Furthermore, it would allow the Government to attract commercial banks to be part of the domestic debt market, by offering shorter-term financial instruments that are in line with their maturity preferences. All strategies indicate that the financial cost associated with expanding the number of instruments available in the domestic debt market would be lower than in the current strategy.

The Government intends to use strategic targets for this MTDS. This first set of targets is based on the current portfolio's characteristics and on the debt management objectives of Vanuatu. In preparing the MTDS 2023-26, the Government intends to use the following key targets:

- The Government will prioritize financing from domestic sources in order to secure the necessary financing for its development objectives
- The Government will prioritize the Long-term Maturity of all its securities issuance.

- MFEM will continue undertaking debt prepayment of loans that have a grant element of less than 35%.

- Government will continue to develop the domestic debt market to improve its depth, liquidity, and efficiency. As part of this effort, it will develop closer engagement with the existing domestic investor base and aim to further expand it in order to reduce excessive dependency on a few investors.

- To minimize the impact of costs and risks to the Government, these indicators shall be used as a guideline to provide measurable and quantifiable targets for monitoring purposes:

Table 6: Key Targets 2023-2026

	Current	**Target**
Domestic debt ATM (years)	6.7	Above 10 years
Debt refixing in one year (%)	8.7	Below 6 percent
FX debt as a percentage of total debt	79.4	below 70 percent
Total Debt as a percentage of Nominal GDP	43.8	Below 60 percent
External Debt as a percentage of Nominal GDP	36.5	Below 40 percent
Domestic Debt as a Percentage of Nominal GDP	7.3	Below 20 percent

- DMU should be appropriately staffed, adequately trained, and resourced to conduct the debt management functions and design and implement the Debt Management Strategy. Furthermore, to facilitate this process, DMU will strengthen its coordination and engagement with other relevant Government institutions and market participants.

- Lastly, DMU must continue initiating Debt-for-Climate Swaps and Debt-for-Nature Swaps. The Country is already at the forefront of climate change advocacy through more international awareness and recognition for which climate change impact is very significant and costly for and in the Pacific Region. Also, to exhaust all available avenues to ensure Vanuatu is successful in finding willing partners to engage with Debt-for-Climate Swaps and Debt-for-Nature Swaps. If successful, Vanuatu will be the second country in the Pacific to engage in this financing program.

5. Monitoring and Evaluation

This Medium-Term debt management strategy has a time horizon of 4 years, and the DMU intends to undertake a review of progress, annually. An assessment of the Government's progress against the MTDS key targets should be reported annually through an updated document. The review should include, in the domestic debt market, a thorough analysis of any difficulties encountered to expand the maturity profile of available instruments and progress on implementing an investor relations communication strategy.