

RESERVE BANK OF VANUATU



MONETARY POLICY STATEMENT

SEPTEMBER 2025

Reserve Bank of Vanuatu



Monetary Policy Statement September 2025

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1. Statement by the Governor

Global economic growth is projected to slow slightly in 2025 and easing further in 2026. This moderation reflects ongoing challenges such as trade protectionism, geopolitical uncertainty, and tighter financial conditions. Growth in Advanced Economies is expected to remain modest, while Emerging Market and Developing Economies, particularly in Asia, are anticipated to be the primary drivers of global expansion.

The Vanuatu domestic economy is steadily recovering from the dual shocks of Air Vanuatu's voluntary liquidation in May 2024 and the December 2024 earthquake. Since the March Monetary Policy Statement (MPS), growth has been primarily supported by demolition and reconstruction activities, public infrastructure development, and a gradual rebound in tourism. Agricultural production recorded mixed results, with notable gains in copra, cocoa, and kava. Real consumption improved amid low inflation, while government spending increased due to employee compensation and post-disaster recovery efforts, though use of goods and services declined. Investment surged in line with rebuilding efforts, and ease in imports alongside improved exports further strengthened the recovery trajectory.

The Government recorded a fiscal surplus for the year to August 2025, supported by inflows from budget support and the citizenship by investment program and robust Value Added Tax (VAT) performance. Due to persistent fiscal pressures, post-earthquake recovery efforts and the ongoing implementation of the capital budget is likely to generate a recurrent fiscal deficit for the year. This deficit is expected to be financed through a combination of deposit drawdowns and domestic borrowing.

In the domestic finance sector, the banking system remains highly liquid, sound, profitable and adequately capitalised on aggregate. Increasing non-performing loans (NPLs), credit risk and persistent issues surrounding correspondent banking relationship (CBR) remain a major risk in maintaining financial stability in the short to medium term.

In September, the Reserve Bank of Vanuatu (RBV) achieved its monetary policy targets and opted to keep its current policy rate at 2.75 percent. Maintaining the stance is appropriate to support economic recovery while managing inflationary pressures. The Bank remains vigilant in monitoring domestic and global economic developments and stands ready to adjust its policy measures as needed to safeguard monetary and financial stability.

MR August LETLET
GOVERNOR
Reserve Bank of Vanuatu

2. Objectives of Monetary Policy

The RBV is responsible for the formulation and implementation of monetary policy in Vanuatu. To support monetary stability, the RBV maintains a pegged exchange rate regime, which serves as a nominal anchor. Monetary stability is defined by the Bank as the preservation of low and stable domestic prices, alongside maintaining an adequate level of official foreign reserves to meet the country's external obligations. Specifically, the RBV aims to keep annual inflation within its target range of 0 - 4 percent and ensures that official foreign reserves are sufficient to cover at least four (4) months of projected imports.

Since the March MPS, official foreign reserves have remained at a sufficient level. In July 2025 official foreign reserves reached VT75,764 million. Majority of Inflows of official foreign reserves were via the government development assistant. These are post-earthquake recovery initiatives, public infrastructure projects, budget support and the RBV inward receipts. The outflows of official foreign reserves in July were via the Government external loan repayment and sales to commercial banks.

Annual inflation has returned to RBV's inflation target range, after three consecutive quarters of deflation since the September 2024 quarter. In the June 2025 quarter, annual inflation was at 0.1 percent. From the macroeconomic perspective, the easing of inflation reflected the lag effect of decline in global commodity prices, declining inflation of Vanuatu's main trading partners, the absence of domestic supply chain disruptions and the strengthening of the Vatu against the US dollar.

The RBV continues to conduct open market operations to sterilize excess liquidity in the financial system, thereby supporting its overarching objective of maintaining monetary stability. The RBV Board of Directors, at its meeting on the 14th of October, decided to maintain the policy interest rate at 2.27 percent, keeping a balanced approach to supporting post-disaster recovery while managing inflationary pressures. The Bank will continue to monitor liquidity conditions and stands ready to adjust its monetary instruments as and when needed.

3. International Economic Developments and Outlook¹

Since the March MPS, the global economy has moderated. Global trade policy uncertainties remain a central influence on the economic outlook; however, several additional factors have contributed to the slowdown in global growth, including the fading of temporary support measures such as front-loading of trade and investment in early 2025, tightening financial conditions in advanced economies, and structural vulnerabilities in key markets, particularly China's property sector and rising debt levels. Many countries face limited fiscal space due to increasing public expenditure pressures, while advanced economies are experiencing weakening labor markets and demographic challenges. Political interference in central banking and deteriorating governance frameworks have further undermined institutional credibility. Combined with persistent inflation and geopolitical uncertainty, these factors have led to a more fragile global outlook.

As a result, global growth is projected to slow from 3.3 percent in 2024 to 3.2 percent in 2025 and 3.1 percent in 2026. Both advanced and emerging market economies are expected to see weaker growth. Advanced economies are forecasted to grow at 1.6 percent in both 2025 and 2026, reflecting the continued impact of monetary tightening, subdued consumer demand, and long-term structural constraints. Emerging and developing economies, while more resilient due to improve policy frameworks and external conditions, are also expected to slow slightly, with growth projected at 4.2 percent in 2025 and 4.0 percent in 2026, driven by domestic demand.

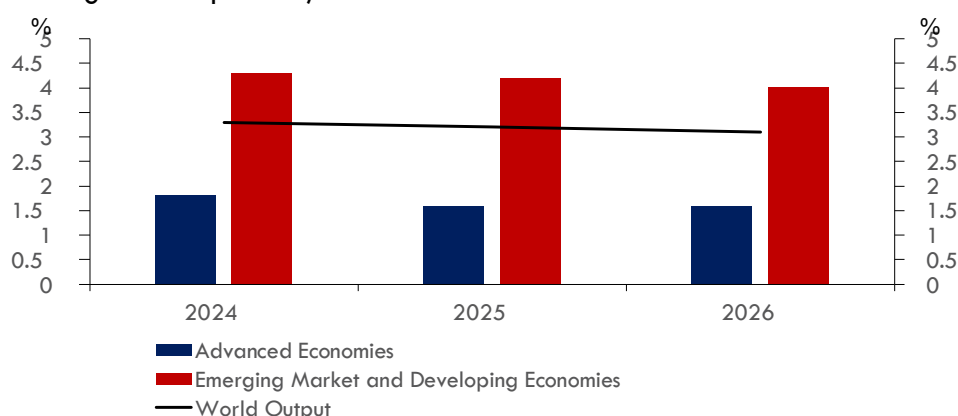
¹ Source: International Monetary Fund October 2025 World Economic Outlook (WEO)

The economic impact of recent tariff measures was less severe than initially anticipated. This outcome is attributed to the implementation of trade exemptions, limited retaliatory actions by affected countries, and prompt adjustments by the private sector. Additionally, supportive financial conditions, expansionary fiscal policies in major economies, and strong investment activity in artificial intelligence and technology within the United States (US) have further mitigated the adverse effects. Nevertheless, the tariff shock is now materializing and is exacerbating the already fragile growth prospects. In the United States (US), economic growth has been revised downward compared to the previous year. Signs of a weakening labor market and persistently elevated inflation indicates that the US economy is experiencing a negative supply shock.

Global inflation is projected to ease, reaching 4.2 percent in 2025 and 3.7 percent in 2026. In the United States, inflation is expected to stay above target, with risks leaning toward further increases. In contrast, inflation is likely to remain subdued across much of the rest of the world.

Although the global economy has demonstrated greater resilience to recent trade shocks than initially anticipated, the overall outlook remains fragile and vulnerable to further disruptions. Therefore, the overall risks to the outlook are tilted to the downside. Extended periods of uncertainty, rising protectionist policies, and disruptions in labor supply could weaken growth. In addition, fiscal challenges, potential corrections in financial markets, and weakening institutional frameworks may pose threats to global economic stability.

Figure 1: Global Economic Growth
(Annual growth in percent)



Source: International Monetary Fund October WEO

World trade volume is forecasted to grow at an average rate of 2.9 percent over 2025–2026, supported by front-loading of trade activity in 2025. However, this pace remains slower than the 3.5 percent growth recorded in 2024, as ongoing trade fragmentation continues to constrain global trade expansion.

3.1 Global Commodity Prices²

Between March and August 2025, global commodity prices fell by 2.6 percent, driven by broad declines across energy, base metals, and agricultural products. Gains in precious metals helped offset some of the losses.

From March and August 2025, Oil prices fell by 5.4 percent, primarily due to weak global demand growth and increased supply from both OPEC+ and non-OPEC+ producers. These factors outweighed

² March-August prices are sourced from the International Monetary Fund October 2025 World Economic Outlook (WEO) while outlook on prices are sourced from <https://www.worldbank.org/en/publication/global-economic-prospects>

the impact of ongoing geopolitical tensions, resulting in downward pressure on prices. Oil prices are expected to decline by 12.9 percent in 2025 and further contract by 4.5 percent in 2026. Declining oil prices are generally positive for Vanuatu's economy, helping to lower both import and domestic prices and supporting broader economic activities.

Global agricultural commodity prices declined, mainly due to abundant supply and the effects of tariffs. The IMF's food and beverages price index dropped by 4.8 percent between March and August with significant decreases in the prices of coffee, cereals, and sugar. Looking ahead, food prices could rise if new export restrictions limit global supply, although such measures may reduce prices within exporting countries. On the other hand, prices could fall further due to higher tariffs, and larger-than-expected harvests (prior to La Nina weather conditions in the fourth quarter of 2025) in key producing regions. Lower agricultural commodity prices benefit Vanuatu's consumers and importers by reducing food and beverage import costs; however, they adversely affect exporters by lowering export earnings.

In contrast, precious metals, especially gold, recorded significant price gains, driven by rising demand for safe haven assets amid heightened geopolitical uncertainty. Between March and August 2025, gold prices rose by 12.8 percent, surpassing \$3,400/ounce, supported by increased purchases from investors and central banks. Prices of precious metals are projected to increase by 30 percent in 2025. Prices are expected to level off in 2026 to 2027. Assuming all else remain equal, Vanuatu's gold investment benefits significantly from the 2025 price peak, strengthening its financial position. As prices stabilize in 2026–2027, the focus may shift from capitalizing on growth to preserving value and ensuring long-term resilience in its investment portfolio. Meanwhile, U.S. import tariffs contributed to lower prices for base metals, adding to the broader decline in industrial commodity market

The average global commodity prices are expected to fall by 10 percent in 2025. A further decline of 6.0 percent is projected for 2026, as production of some energy and metal commodities are expected to expand and supply constraint for some agricultural goods will improve. Prices are projected to rise gradually thereafter as global growth recovers.

4. Developments in Vanuatu's main trading partners and Outlook³

The **US** economy expanded at an annualized rate of 3.8 percent during the second quarter of 2025 following a mild contraction of 0.5 percent in the first quarter. This recovery was primarily driven by a sharp decline in imports, which positively impacted net exports, and a modest increase in consumer spending. The offsets to growth are fixed investment and exports. Inflation in the US remained elevated, exceeding the Federal Reserve's (Fed) 2.0 percent target. Tariff-related cost pass-through effects continued to influence consumer prices. As of August 2025, the annual headline inflation rate stood at 2.9 percent (+2.7%: July 2025). Price increases were recorded for: food (+3.2%), energy (+0.2%), shelter (+3.6%), transport (+3.5%), medical services (+4.2%), new vehicle (+0.7%), used cars and trucks (+6.0%) and apparel (+0.2%). Similarly, core inflation rose 3.1 percent compared to August 2024. Fed maintained a restrictive monetary policy stance until the 17th of September 2025, when it reduces its policy interest rates by 0.25 percentage points to 4.00-4.25 percent range, owing to moderation in economic activity and slower job gains though inflation remained elevated. The labor market remained relatively stable, unemployment rate recorded 4.3 percent in August 2025, relatively stable from 4.2 percent August 2024. In July, the U.S. trade deficit in goods and services grew by 32.5 percent compared to June 2025 and by 30.9 percent compared to July 2024. Although exports

³ Source from OECD (2025), OECD Economic Outlook, Volume 2025 Issue 1: Tackling Uncertainty, Reviving Growth, OECD Publishing, Paris, <https://doi.org/10.1787/833633382-en> and the International Monetary Fund July 2025 World Economic Outlook (WEO)

increased slightly (+0.3%), imports rose much more (+5.9%), leading to a larger deficit. A similar pattern was seen over the past year, with exports up 5.5 percent and imports rose 10.9 percent.

The IMF projects U.S. economic growth to slow significantly to 2.0 percent in 2025 and 2.1 percent in 2026, primarily due to increase policy uncertainty, rising trade barriers, and weaker labor force and employment growth.

The **Euro Area** experienced a deceleration in economic activity during the second quarter of 2025 as the annual real GDP growth moderated to 1.4 percent, relative to 1.5 percent in the first quarter. The slowdown in growth reflected subdued external demand, weak industrial output, and persistent geopolitical uncertainties. Trade uncertainty, particularly surrounding U.S. tariffs, has weighed on business sentiment and investment. The euro area annual inflation rate is expected at 2.1⁴ percent in August 2025, compared to 2.0 percent in June. The highest contribution is expected from food, alcohol & tobacco (+3.2%) followed by services (+3.1%), non-energy industrial goods (+0.8%) and the offset is energy (-1.9%). The European Central Bank (ECB) concluded its easing cycle and adopted a neutral stance from June to September. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will remain unchanged at 2.00 percent, 2.15 percent and 2.40 percent, respectively. In July 2025, the euro area unemployment rate was 6.2 percent, lower compared to 6.3 percent in June and down from 6.4 percent in July 2024. From January to June 2025, the Euro area's trade in goods surplus narrowed by 8.6 percent, as exports rose 3.9 percent and imports rose 4.9 percent.

According to IMF projections, the Euro area GDP is expected to rise to 1.2 percent in 2025 and 1.1 percent in 2026, supported by recovering foreign demand. Elevated uncertainty and higher tariffs remain key constraints, with partial offsets from improved private consumption and fiscal easing in Germany, and strong economic performance in Ireland boosting growth in 2025.

Australia's annual GDP rose 1.8 percent in the June 2025 quarter, rising from 1.4 percent from the March 2025 quarter. Economic growth rebounded in the June quarter following subdued growth in the March quarter, which was heavily impacted by weather events. The positive drivers to growth were household and Government spending and net trade, led by exports of mining commodities. Public investment contributed negatively to growth. Australia's annual headline inflation rose 2.6 percent in August, down from 2.7 percent in July. The largest contributors to this rise were Housing (+4.5%), Food and non-alcoholic beverages (+3.0%), and Alcohol and tobacco (+6.0%). The RBA adopted a gradual easing stance in response to moderating inflation and softening total factor productivity and global uncertainties including trade tensions. In August 2025 the RBA further reduced its cash rate to 3.6 percent, the lowest since April 2023. It maintained its policy rate in September. Unemployment rate recorded 4.2 percent in August 2025, stable trend from 4.1 percent in August 2024. During the June 2025 quarter the Australia CAB deficit increased by 3.1 percent relative to the March quarter 2025 owing to expansion in the of net primary income deficit (+6.7%), offset by the reduction of balance of goods and services surplus (-28.4%).

Following recent weak economic activities, the OECD estimated the Australian GDP to grow by 1.8 percent in 2025 and 2.2 percent in 2026.

New Zealand's economy contracted by 1.1 percent over the year to both March and June 2025, respectively. The negative year-on-year growth was attributed to primary industry (-0.7%), Goods producing industries (-2.3%), while services sector (0%). Annual Inflation in the June 2025 quarter reached 2.7 percent, owing to increase prices in both tradeable (+1.2%) and non-tradeable (+3.7%).

⁴ Flash estimates from Eurostat

The Reserve Bank of New Zealand (RBNZ) decreased its Official Cash Rate (OCR) by 25 basis points to 3 percent in August as inflation remained within target and inflationary pressures continued to ease and support economic recovery. The RBNZ's easing stance reflects confidence in inflation control and concern over growth and labor market softness. Unemployment rate was 5.2 percent in the June quarter 2025, 5.1 percent in the March quarter and 4.7 percent in June quarter 2024. New Zealand's current account deficit narrowed by NZD53 million from the December 2024 quarter to record NZD 5.5 billion in the March 2025 quarter, owing mainly to narrowing of goods balance deficit which offsets the services balances deficit following a surplus in the December 2024 quarter.

The OECD projected growth to remain almost stable at 0.8 percent in 2025 and slowly rise to 1.7 percent in 2026, supported by lower interest rates. However, increased trade restrictions and high uncertainty about trade policy globally will temper external demand, confidence and the pace of the recovery.

China's real GDP grew by 5.3 percent year-on-year in the first half of 2025, surpassing expectations and edging above the government's full-year target of "around 5 percent". Key drivers are: industrial output mainly high-tech and equipment manufacturing, net exports driven by exporters rushing orders ahead of tariff deadlines, policy support via consumer trade in programs, frontloaded fiscal measures to stimulate demand, domestic consumption and rapid expansion in innovation and green industries. Though challenges such as real estate slump, weak consumer demand as reflected in slow retail sales, deflationary pressures and structural weakness remained. The annual inflation in July 2025 remained virtually unchanged (0.0%), prices in the urban areas remained flat (0.0%) while prices in the rural areas decreased 0.3 percent. The price for food decreased by 1.6 percent, while that for non-food increased by 0.3 percent; prices for consumer goods decreased by 0.4 percent, while that for services increased by 0.5 percent. In July, the urban surveyed unemployment rate was 5.2 percent, 0.2 percentage points higher than that of June and maintaining the same level as that of the same month last year. For the year to July 2025, the total value of imports and exports of goods was up by 3.5 percent year on year. The total value of exports was up by 7.3 percent, and the total value of imports was down by 1.6 percent year on year.

According to IMF projections, growth in China is expected to reach 4.8 percent in 2025, driven by strong domestic consumption and fiscal expansion, before easing to 4.2 percent in 2026 amid rising uncertainty and trade barriers.

5. Potential implications on the Vanuatu Economy

Developments in Vanuatu's main trading partners have implications for the Vanuatu's external sector, particularly through tourism, remittances, trade, and investment flows.

Keeping other factors constant, recent economic growth in the US, Euro Area, Australia, and China is expected to increase tourists and remittances to Vanuatu, while New Zealand's economic slowdown may reduce both. Higher US inflation due to tariffs could raise prices of US imports and lower demand for Vanuatu's niche exports like kava. Food inflation in the Euro Area, Australia, and New Zealand may lead to higher food import costs for Vanuatu, whereas stable inflation in China helps keep Chinese import prices steady.

Keeping other factors constant, lower interest rates in Australia and New Zealand would reduce mortgage and loan payments, giving people more disposable income to spend say, on travel, which may increase tourism to Vanuatu. Additionally, cheaper borrowing costs make it easier for investors in these countries to access funds, encouraging them to seek profitable investments abroad. As a result,

Vanuatu is likely to attract more investment, especially in tourism, real estate, and local businesses, leading to increase investment flows into the country.

Higher unemployment in New Zealand is likely to reduce spending on tourism related expenses, demand for Vanuatu exports, remittances, and foreign investment from NZ. In contrast, lower unemployment in the Euro Area is expected to increase tourism, trade, remittances, and investment from that region.

Meanwhile, stable unemployment in the US, Australia, and China suggests steady tourism, trade, remittances, and business confidence from these countries.

6. Domestic Economic Developments and Outlook

The Vanuatu domestic economy continues its recovery trajectory following the challenges posed by the voluntary liquidation of Air Vanuatu in May 2024 and the December 2024 earthquake in Port Vila and Efate. Since the March MPS, growth has been driven largely by reconstruction efforts, ongoing public infrastructure projects, and a gradual recovery in tourism. The production sector showed mixed outcomes, with notable increases in copra, cocoa, and kava output. Real consumption has strengthened, supported by a low inflation environment, while government expenditure rose primarily due to higher compensation of employees and post-earthquake recovery initiatives, partially offset by subdued growth in use of goods and services. Investment expanded significantly in line with reconstruction activities. Concurrently, imports moderated as exports showed improvement, reinforcing the recovery momentum.

Recent improvements in business performance continue to support the broader recovery of the Vanuatu economy. The 2nd 2025 Businesses Expectation Survey (BES)⁵ indicates, a net⁶ positive performance (+2%) in the current period⁷ a notable improvement from a net negative (-2%) business performance observed in the preceding six months. This improvement reflects growing confidence among businesses, underpinned by stronger domestic demand, improved operating conditions, and easing supply-side constraints. Consequently, consumption and investment have increased, alongside a gradual improvement in exports. These trends align with recent indicators, including higher Value Added Tax (VAT) collections, credit growth to businesses, and an improved current account balance (CAB).

6.1. Economic activities by production

The production sector (agriculture, forestry, fisheries) showed varied movements during the second quarter of 2025. Copra, cocoa and kava production increased significantly due to favourable prices and institutional support, though beef and coffee production declined. Copra production (tonnes) rose sharply by 39.9 percent relative to the first quarter and 53.6 percent year-on-year. This largely reflected favourable producer's prices, from VT40,000 to VT80,000 per tonne. Similarly, cocoa production per tonnes rose strongly by 128 percent and 295.9 percent, relative to the previous quarter and the second quarter of 2024. The surge in cocoa production reflected global demand and institutional support⁸ by relevant authorities. As a result, the value of cocoa exports accelerated quarter on quarter (+ 226.8%) and year-on-year (+197.7%).

Cattle production as represented by the number of heads slaughtered, though rose by 3.5 percent relative to the previous quarter, fell significantly by 15.4 percent, relative to the previous year. In general, the average carcasses weight per kilo slightly fell by 3.1 percent quarter on-quarter and 0.1 percent year-on-year implying a general decline in production. As a result, there were no beef exports

⁵ The 2nd 2025 BES was conducted on the 2nd to 21 August. The purpose of the BES is to gain timely, forward-looking insights into the economic conditions and expectations of firms across various sectors.

⁶ This net figure reflects the balance between responses anticipating decline, increase and no change in the relevant indicators

⁷ Current period covers developments from April – September 2025

⁸ Source: Vanuatu Business Review June 5 2025

during the first quarter of 2025, exports of beef occurred during the second quarter and have remained subdued relative to a year ago. The findings from the BES reveals cattle shortages as a critical concern for the beef industry, posing long-term sustainability concerns.

Kava exports surged in both volume and value. The volume of kava exports soared 43.2 percent and 60.5 percent, relative to first quarter and the second of 2024. This indicates a good performance in kava production. Similarly, the value of kava exports grew by 55.1 percent and by 79.0 percent compared to the preceding quarter and year, respectively. Higher earnings reflected rising global demand. Coffee production has declined as the volume of coffee exports fell markedly relative to the March 2025 quarter (-51.6%) and June 2024 quarter (-88.2%).

In June 2025, increased annual lending from commercial banks to the agriculture (+30.5%) and fisheries sectors (+168.3%) supported output. The offset was reduced lending (-91.8%) to the forestry sector.

Growth in the **industry sector** significantly improved during the first half of 2025 fuelled by post-earthquake reconstructions and major public infrastructure projects. The ongoing public infrastructure projects⁹⁹ are; the Sarakata Hydro Plant extension, Vanuatu Energy Access Projects (extension of electricity grid in Santo), South Paray Wharf, Teouma bridge, Norsup Airport extension and other secondary airports and Tanna, Pentecost and Vanuatu Climate Resilient Transport projects (VC RTP). Several new projects which are in preparation stages, aimed at supporting disaster recovery and expanding maritime infrastructure are; the Earthquake Recovery Road Stabilization Project, Simonsen Wharf (Luganville) expansion and five Inter Islands Wharf Projects, which includes jetties at Malo, Eastern Lenakel, Sola, Lamap (Malekula), and Lolowai (Ambae).

Partial indicators of construction such as imports of cement rose significantly by 235.2 percent from the March 2025 quarter and 261 percent from the June 2024 quarter. The offset was the decline in imports of machines and transport equipment's both quarter on quarter (-16.6%) and year-on-year (-4.8%). Commercial banks' lending to the construction as sector rose significantly by 21.7 percent in June 2025 relative to June 2024, indicating robust activity.

The spill-over effects benefited mining, quarrying and public utilities subsectors. The BES findings show that businesses within the mining and quarrying sector indicated a stable growth in the current period reflecting steady local demand. From commercial banks data, the annual growth in lending to the mining and quarrying fell by 8 percent compared to June 2024. Proxy indicators for public utilities such as imports of fuel (diesel and petrol) rose by 21.7 percent relative to the March 2025 quarter, reflecting increased energy demand, though lower (-70.4%) compared to June 2024 quarter. Moreover, lending to the public utilities sector rose 23.9 percent relative to June 2024.

Manufacturing recorded modest growth during the first half 2025, supported by domestic demand and tourism recovery. However, air transport connectivity challenges persisted in outer urban centres. Proxy indicator from commercial banks saw lending to manufacturing rose 22.1 percent over the year to June 2025.

Recovery in the **Services Sector** was gradual from the dual impacts of the liquidation of air Vanuatu and earthquake-related disruptions in 2024. This has a flow-on effect to tourist arrivals, tourism related services and other services subsectors in Port Vila and Efate.

Air arrivals rebounded strongly, increasing by 82.0 percent from January to August 2025 compared to the same period in 2024. This improvement reflects enhanced international flight connectivity. However, this positive trend was offset by a 37.5 percent decline in cruise ship arrivals relative to 2024, primarily due to damage sustained by port infrastructure in Port Vila following the December 2024 earthquake. Cruise ship operations resumed in Port Vila in August 2025, but the earlier disruption

⁹ Source: Vanuatu Project Management Unit

significantly impacted overall visitor numbers. As a result, total visitor arrivals declined by 18.1 percent for the year to August 2025, with the shortfall largely attributed to reduced cruise ship arrivals. Outer island tourism continued to lag due to limited domestic connectivity.

In August 2025, the average length of stay for air arrivals was 8 days. This duration contributed to positive spill over effects across tourism-related services, including accommodation and food services, transport, retail and wholesale trade, as well as information and communication sectors.

Excluding the positive spill over effects from air tourist arrivals, growth in the retail and wholesale trade for motor vehicles remained subdued. This was evidenced by a decline in motor vehicle imports of 18.1 percent compared to the March 2025 quarter and 48.0 percent relative to the June 2024 quarter. Postal services, serving as a proxy indicator for the information and communication sector, recorded a 6.4 percent increase in the June 2025 quarter. However, remained 5.3 percent lower when compared to the same period in 2024.

Finance and insurance services recorded growth supported by the expansion of key partial indicators. The money supply increased by 5.6 percent compared to March 2025 and by 13.7 percent relative to June 2024. The private sector credit also expanded, registering a 9.6 percent year-on-year growth as of June 2025. In addition, approximately VT3.8 billion in insurance claim payouts related to earthquake recovery had been settled as at 31st July 2025, providing further support to economic activity.

The real estate sector continued to expand, driven by post-earthquake recovery efforts that have heightened demand for resilient housing and commercial properties. The rebound in tourism further stimulated demand for short-term rentals, resorts, and hospitality infrastructure.

Proxy indicators derived from commercial bank lending data show a notable expansion in credit to several subsectors over the year to June 2025. Significant increases were recorded in transport (+60.1%), entertainment and catering, professional services (+127.9%), and other services (+22.8%). Conversely, reductions in lending were observed in wholesale and retail trade (-2.8%), communications (-98.7%), and tourism (-12.7%), reflecting subdued activity in these areas.

6.2. Economic activity- by expenditure

Since the March MPS, the contribution of spending to growth has remained stable. While domestic consumption and investment have increased, these gains were offset by a negative net export position.

Domestic consumption expanded during the first half nine months of 2025, as evidenced by a notable increase in Value Added Tax (VAT) collections—a proxy indicator for overall consumption. The recovery in tourism and post-earthquake reconstruction efforts have bolstered household confidence and spending, particularly in urban areas. VAT collections rose by 18.9 percent for the year to August 2025 compared to the same period in 2024.

Government consumption, measured by compensation of employees, increased by 16.5 percent over the year to August 2025. However, this was offset by a significant decline of 23.5 percent in the use of goods and services, indicating a contraction in operational expenditure.

Majority of the proxy indicators for private consumption from relevant sector has also risen relative to previous year's level. Crude indicators of consumption from the public utilities sector depicted mixed performances. The growth in Port Vila's electricity consumption remained stable relative to the previous quarter though higher (+1.6%) relative to the June 2024 quarter. Luganville electricity consumption increased both quarter-on-quarter (+1.4%) and year-on-year, (+2.8%). The offsets were reduction in electricity consumptions for Tanna (June 2025 quarter: -40.8%, June 2024 quarter: -28.6%) and Malekula (June 2025 quarter: -43.0%, June 2024 quarter: -10.2%). Partial indicators of consumption from the transport sector was positive, as private motor vehicle registrations in Port Vila and Luganville

rose notably by 30.7 percent relative to the March 2025 quarter and 11.0 percent from June 2024 quarter.

Most proxy indicators for private consumption showed improvement relative to the previous year. Partial indicators for the public utility sector presented mixed results. Electricity consumption in Port Vila remained stable quarter-on-quarter and increased by 1.6 percent year-on-year. Luganville recorded growth in electricity usage both quarter-on-quarter (+1.4 percent) and year-on-year (+2.8 percent). In contrast, electricity consumption declined sharply in Tanna (−40.8 percent quarter-on-quarter, −28.6 percent year-on-year) and Malekula (−43.0 percent quarter-on-quarter, −10.2 percent year-on-year). Transport sector partial indicators were positive, with private motor vehicle registrations in Port Vila and Luganville rising by 30.7 percent compared to the March 2025 quarter and 11.0 percent relative to June 2024. Additionally, commercial bank data revealed a 15 percent annual increase in personal loans as of June 2025, supporting the upward trend in household consumption.

Government **investment** remained aligned with ongoing public infrastructure projects outlined in the industry sector. For private sector investment, the BES reported a strong net positive increase (+53) in capital investment, driven by business recovery and resilience. Several businesses expanded operations, some replaced earthquake-damaged stock, and one initiated new construction projects. From the banking sector, lending to businesses rose by 11.1 percent over the year to June 2025, supporting private investment activity. However, household investment, measured by land and property purchases—remained subdued, declining by 4.6 percent over the same period.

Recent trends of partial indicators in durable equipment showed mixed performance. Imports of machinery and transport equipment declined both quarter-on-quarter and year-on-year (refer to industry section), while private motor vehicle registrations in Port Vila and Luganville increased during both periods (refer to consumption section). Lending to the transport sector expanded relative to June 2024 (refer to services sector), and one financial institution¹⁰ recorded a 20.9 percent annual increase in loans as of June 2025.

In terms of **trade**, export earnings from tradeable commodities surged by 55.3 percent compared to the March 2025 quarter and by 49.0 percent relative to June 2024. Service exports, particularly air visitor arrivals, rose by 82.0 percent from January to August 2025. Import payments for goods increased by 5.3 percent relative to the March 2025 quarter but remained 8.9 percent lower than the June 2024 quarter. Despite the rise in export earnings, Vanuatu's trade in goods deficit widened by 4.7 percent quarter-on-quarter and 19.1 percent year-on-year, reflecting the country's status as a net importer.

6.3. Fiscal developments

Over the year to August 2025 the Government's recurrent revenue recorded VT34,809.3 million, higher by 38.4 percent relative to same period in 2024. Recurrent expenditure amounted to VT27,962.6 million, an increase of 13.6 percent compared to first eight months of 2024. As the level of revenue exceed expenses a net operating surplus of VT6,846.8 million (4.7% of GDP) was recorded for the year to August 2025. After financing the net acquisition of non-financial assets worth VT2,429.9 million, a recurrent fiscal surplus of VT4,416.9 million was recorded for the year to August 2025 relative to a fiscal deficit of VT4,290.7 million in 2024. The exceptional performance in revenue during the current period largely reflected significant inflows of budget support for post-quake recovery initiatives and inflows via the citizenship by investment program. Similarly, persistent consumption supported by post-earthquake recovery initiatives, recovery in tourists and strengthening of compliance measures by

¹⁰ Other Financial Institution which specialises in extending credit particularly for acquiring motor vehicles, heavy machinery, and plant equipment used in business operations

appropriate authorities have improved revenue collections, in particular VAT. All revenue components have performed and have exceeded 50 percent of their respective budget targets for 2025. Value

Added Tax (VAT) (77.8%), excise tax (58.9%), taxes on international trade and transaction (56.9%), taxes on property (81.2%), budget support (65.1%) and honorary Citizenship program (93.2%).

Government expenditure has been well controlled as majority of the spending categories have remained within their 2025 respective budget targets; except for social benefits and other expenses. The increase in other expenses was primarily due to spending towards post-earthquake recovery initiatives. Donor financing via grants reached 22.5 percent of its 2025 budget target.

Developments in fiscal financing, saw that for the year to August 2025, the Governments net acquisition of financial assets (recurrent) amounted to VT4,808.9 million, the positive balance implies that the Government has accumulated its financial assets, in particular deposits and proceeds from bonds. Net incurrence of liabilities rose by VT392.9 million. This deteriorating position reflected the offsetting effects of a rise in domestic borrowing by VT1,287.9 million and the reduction in external loans by VT 895.8 million. The outstanding level of Government bonds (domestic) reached VT17,880.3 million in August (August 2024: VT16,592.5 million).

6.4. Monetary and Financial developments

The annual growth in money supply during the first seven months of 2025, accelerated by 13.9 percent, underpinned by notable increases in both net foreign assets (NFA) (+17.3%) and domestic credit (+8.9%). The growth in NFA was primarily driven by net inflows of official foreign reserves recorded by the RBV and commercial banks. These inflows largely stemmed from donor contributions and net investment income accrued by the Bank. Domestic credit growth was chiefly attributed to a 9.6 percent increase in private sector credit, reflecting stronger domestic consumption and expansion in business investment in line with the current economic recovery. This was partially offset by a 9.8 percent decline in net credit extended to the Government by the banking system. The improvement in the Government's net credit position vis-à-vis the banking system reflected the accumulation of Government deposits and a decline in domestic borrowing through both the RBV and commercial banks during the reporting period (July 2025).

Reserve money expanded by 10.8 percent year-on-year to VT59,239.5 million in July 2025. The main contributing factors were currency in circulation (CIC), up by 20.0 percent and statutory reserve deposit, (+6.5%). Excess reserves rose by 8.3 percent, however remained elevated at VT31,601.3 million, way above the minimum comfortable level of VT3,000 million.

The **banking sector** is adequately capitalized as the average Capital Adequacy Ratio (CAR) recorded 21.4 percent over the year to June (24.1%: 2024) above the minimum CAR of 12 percent. The downside risks to the banks' capital included high non-performing loans (NPL), losses and high risk weighted assets. Underlying profits (before tax and provisions) recorded VT1.9 billion during the second quarter of 2025, higher by 69.4 percent in the same quarter of 2024. Net income (after tax and provisions) increased by 52.5 percent over the year to record VT1.46 billion at the end of June 2025. The annual growth in provisioning expense picked up significantly by 94.0 percent to VT47.9 million in the June 2025 quarter. The upward trend was attributed to increasing NPLs, as banks efforts to safeguard against anticipated credit risks/defaults in the aftermath of the earthquake. Private sector credit is picking up, though high concentration (54.6 percent) remains to personal sector.

In general, NPLs decreased by 15.8 percent to VT10.6 billion (VT12.6 billion: Jun-24), though increase was noted in higher risk categories as the increase in doubtful loans more than offset the decline in loss loans. The share of NPL to total loans decreased to 11.5% (15.3%: Jun-24). Specific provisions increased by 7.6 percent over the year to VT2.8 billion. This reflected increase in high-risk loans

categories, whilst general provisions decreased 3.8 percent to VT2.8 billion, owing to anticipated decline in credit impairments.

The total industry's liquidity is maintained at adequate levels, however continues to be unevenly distributed. On the 27th of August 2025, total liquid assets holdings stood at VT45.6 billion, compared to VT45.2 billion in the same period last year. LAR is positioned at 48.1 percent, (49.1% Aug-24), which is well above the minimum regulatory threshold of 5 percent

6.5. Domestic price development

Annual inflation in Vanuatu returned to the RBV's target range of 0–4 percent, reaching 0.1 percent in the June 2025 quarter. This marks a turnaround following three consecutive quarters of deflation: in September 2024 quarter (-1.9%), December 2024 quarter (-0.7%), and March 2025 quarter (-0.6%). The subdued inflation from late 2024 through mid-2025 was largely influenced by elevated price levels in 2023, delayed impacts from falling global commodity prices, reduced inflation among Vanuatu's key trading partners, the absence of domestic supply disruptions such as cyclones in 2024, and the strengthening of the Vatu against the US dollar.

According to the Vanuatu Bureau of Statistics (VBOS), the primary contributors to the annual price increase were: food (+0.7%), health (+8.2%), education (+0.9%), transportation (+0.7%), and miscellaneous goods and services (+1.8%). These upward shifts were driven by rising prices for: meals and takeaway food, fruits and vegetables, medical testing, private school fees, vehicle maintenance, and personal accessories.

6.6. Official reserves

As of August 2025, official foreign reserves are estimated at VT75.5 billion, slightly up from VT75.1 billion in March, primarily due to post-disaster recovery inflows.

6.7. Exchange Rates Development

Exchange rate developments remain influenced by both domestic and international factors. Domestically, signs of rising aggregate demand amid ongoing economic recovery may affect how the vatu is pegged, particularly in trade and investment. Internationally, since the March 2025 MPS, central banks including the Fed, RBA, and RBNZ have cut and then maintained interest rates, while the ECB held its rates steady. These actions have reduced demand for respective trading partner's currencies such as the USD, AUD, and NZD. Since the March MPS, the Vatu appreciated against the USD, depreciated against the Euro, and remained stable against the AUD and NZD. The appreciation of the Vatu against the USD was driven by tariff measures and policy rate cuts, while the depreciation against the Euro reflected stronger Euro area economic activity and increased demand for euro-denominated investments.

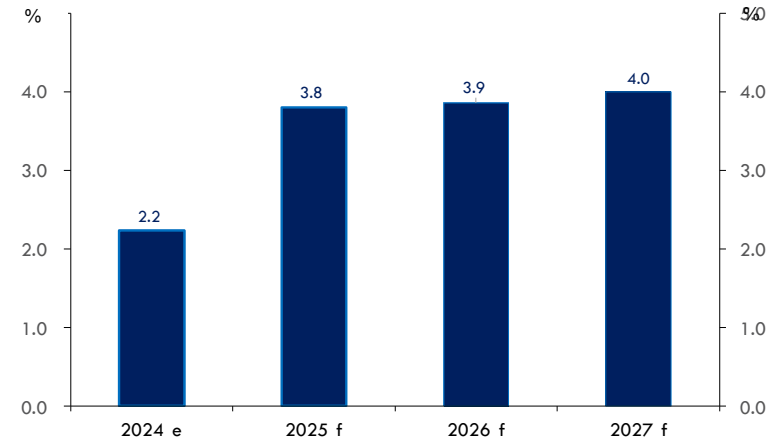
7. Outlook for the Domestic Economy

Vanuatu's economic outlook for 2025 and 2026 reflects a modest recovery following a series of adverse shocks in 2023 and 2024, including multiple cyclones, the voluntary liquidation of Air Vanuatu and a major earthquake. The economic performance has remained resilient with growth projections continuing on a positive trajectory supported by post-earthquake reconstruction efforts, particularly in Port Vila and Efate, rebound in tourism, and sustained public infrastructure investment. The Macroeconomic Committee (MEC), during their meeting in June, projected that the Vanuatu economy will expand by 3.7 percent, an upgrade forecast from the March 2025 forecast of 3.6 percent, though risks remain elevated. Growth is expected to rise to 3.9 percent in 2026.

From the production perspective, growth is broad based, driven primarily by the industry sector, followed by the services and agriculture, fishing and forestry sector. From the expenditure side, growth is supported by post-earthquake recovery and reconstruction efforts, a rebound in tourism and related employment and low inflation, which are expected to boost consumption and investment thus drive growth. Though, tourism earnings are high import demands associated with recovery is an offset to the overall growth outlook.

Figure 2: Domestic GDP Growth Forecast

(Annual growth in percent)



Source: Vanuatu Bureau of Statistics, Macroeconomic Committee Forecast-October 2025

7.1. Economic Outlook- by production

The **agriculture, forestry, and fisheries sector** is projected to grow by 2.7 percent in 2025 (+2.2%:2024), with further expansion expected at 3.3 percent in 2026. Steady growth across all subsectors is anticipated to support this upward trajectory. Findings from the BES indicate a net positive increase of (+8 %) in business performance over the next six months, reinforcing the sector's growth outlook.

The outlook for the production of root crops, fruits, and vegetables remains positive, supported by favourable weather conditions, the recovery in tourist arrivals, the reopening of the Port Vila CBD, ongoing reconstruction efforts, and donor-funded recovery programs. These factors are expected to drive demand for crop production. Production of tradeable commodities is anticipated to remain stable, reflecting a slowdown in international commodity prices for Vanuatu's key exports. In the short to medium term, government initiatives, such as the agriculture business fund and the construction of the Santo National Pack House, are expected to motivate farmers to increase the production of tradeable root crops.

Forestry production is expected to remain steady, supported by improved climatic conditions following prior cyclone disruptions, recovery in rural output through government and donor-funded programs, and increased domestic demand for timber and wood products driven by post-earthquake reconstruction activities.

Animal production is anticipated to remain modest over the next six months, due to ongoing shortages in cattle supply to sustain domestic consumption. The BES findings reveal that many cattle farmers are transitioning away from livestock production in favour of kava and other crop cultivation, further reducing local cattle supply.

The outlook for the fishing subsector, both subsistence and commercial, is positive for the upcoming six months. This reflects rising domestic demand for fish, particularly from households and tourism-related services such as accommodation and food. The establishment of new market sites for commercial fish sales is expected to further boost production.

The **industry sector** is projected to grow robustly by 8.1 percent in 2025 (+1.8%: 2024), with further growth of 9.2 percent anticipated in 2026. This strong performance is primarily driven by ongoing public infrastructure development, execution of capital budget projects (CAPEX), and post-earthquake reconstruction efforts. BES results indicate a net positive business performance of (+4%) for the industry sector over the next six months. All construction businesses surveyed anticipate favourable performance, largely attributed to reconstruction activities. Increased construction activity is expected to stimulate growth in related subsectors such as water and electricity, and mining and quarrying.

The manufacturing sector is gradually recovering, with steady growth expected over the next six months. This projection aligns with the rebound in tourism, the reopening of Port Vila's CBD, and the resumption of cruise ship arrivals to Port Vila in August 2025. Cruise visits are expected to increase in the coming months. BES findings show that several businesses have invested in new machinery and factory construction, which is expected to support production growth in the short to medium term.

The **services sector** is projected to grow by 3.9 percent in 2025 (+3.0%: 2024), with a slight moderation to 3.7 percent in 2026. BES results indicate a net positive performance (+5 %) over the next six months, with the majority of growth expected to come from the accommodation and food services subsectors. This outlook is supported by the ongoing recovery in air tourist arrivals and the anticipated increase in day visitors following the resumption of cruise ship visits to Port Vila in August. Targeted tourism initiatives¹¹ by relevant authorities are expected to further boost visitor numbers in the short to medium term. However, domestic air transport connectivity remains a challenge.

Growth in tourist arrivals is expected to stimulate activity in tourism-related sub-sectors, including wholesale and retail trade, transport, accommodation and food services, and information and communication technologies. BES findings also highlight additional factors contributing to growth in these subsectors.

The wholesale and retail trade subsector projects a positive outlook, driven by strong demand for construction materials for both public and private reconstruction projects, as well as ongoing residential construction, particularly by seasonal workers. Fuel demand is expected to remain high, reflecting continued consumption by international airlines, utility companies, and fuel stations. Motor vehicle trade is also expected to grow, supported by strong domestic demand. Several businesses have undertaken acquisitions, expanded operations, and increased investment, contributing to improved performance.

In the transport subsector, shipping services are expected to expand, with businesses anticipating an increase in the number of ships and container arrivals toward the end of 2025. One shipping company has already expanded its fleet and operations to Santo. Additionally, the upcoming inter-island shipping project is expected to enhance domestic and international shipping capacity in the medium term.

The finance and insurance subsectors are expected to perform positively, particularly among the finance sector. BES findings indicate improved business performance driven by the adoption of financial technologies, increased deposits and lending activity, and expanded investment. However, the insurance subsector is projected to experience stagnant growth in 2025. Despite the ongoing payments of post-

¹¹ The Vanuatu Tourism Office launched a "Wake Up Call" campaign in September 2025 to target Australian tourism to choose Vanuatu as a destination.

earthquake claims, the subsector continues to face challenges due to customer reluctance to pay premiums. Reinsurance terms are expected to remain unchanged with no reduction in premium rates anticipated. Persistently high premiums may impact client retention and profitability.

The real estate subsector is projected to experience continued growth in 2025, driven by rising demand for land from both local residents, many of whom are seasonal workers and non-residents. This upward trend is further supported by ongoing population growth.

BES findings also point to strong growth expectations in professional, technical, and scientific services, driven by a steady inflow of new clients, particularly from overseas markets. However, regulatory and policy challenges, especially those related to government compliance requirements, remain a concern. Engineering services are expected to remain robust, aligned with demand for post-earthquake reconstruction and major new construction projects scheduled for implementation in the near to medium term.

The contribution of the social services sector is expected to moderate through the end of 2025, primarily due to the ongoing teachers' strike, which has disrupted classroom learning hours. Non-profit institutions serving households (NPISHs) will continue to support social services, particularly through post-earthquake recovery initiatives. According to BES findings, several NPISHs have launched the Safe Schools Project, focusing on quality early childhood education delivery. Health-related programs also remain a priority, with emphasis on children's well-being during and after the recovery phase.

7.2. Economic outlook- by expenditure

Based on recent developments, consumption and investment will drive economic activities in 2025. Though offset by stronger imports for post-recovery efforts, a leakage in growth.

Household consumption is expected to strengthen over the next six months, supported primarily by improved real consumption due to inflation moderating within the RBV's target range until the end of 2025. Additional factors contributing to this growth include the Government's post-earthquake wage subsidies, reconstruction efforts, implementation of capital projects, tourism recovery, reopening of business in the CBD and remittance inflows. The BES indicates an optimism, with a net positive sales outlook of 23 percent, indicating a corresponding rise in household consumption.

Investment prospects are favourable, driven by government spending aligned with post-earthquake reconstruction and planned capital expenditures. The economic stimulus package, including small business grants and loan guarantees, is anticipated to further boost investment and acquisition of durable equipment. Business expectations signal a 33 percent net increase in capital investment across sectors in the next six months, with durable equipment growth expected to align accordingly.

Business expectations indicate a gradual 3.0 percent net increase in goods exports over the next six months, continuing the significant gains seen in the first half of 2025, primarily due to strong demand and increased production of kava. Similarly, export of services is expected to increase by 17.5 percent reflecting the ongoing recovery of tourists, supported by targeted initiatives and promotional campaigns.

Businesses anticipate a 21 percent net increase in imports over the next six months. Although current data shows a decline, imports are expected to rise significantly to support post-recovery construction materials.

7.3. Risks to the growth outlook

The upside risks to the overall growth forecast includes a faster-than-expected recovery in tourism, improved agricultural output due to favourable weather and improved domestic prices for export commodities, accelerated reconstruction and infrastructure development, increased remittances boosting consumption and stabilizing foreign reserves, and inflation remaining within target to support a positive investment climate.

Conversely, downside risks include potential natural disasters and climate change impacts, limited domestic connectivity constraining tourism and trade, delays in reconstruction and project execution hindering recovery, domestic labor shortages restricting resilience and long-term growth, and external shocks such as global trade tensions and tariff increases (e.g., U.S. tariffs on Vanuatu exports) that may reduce demand.

7.4. Fiscal outlook¹²

The Government estimated that recurrent revenue will amount to VT45,178.6 million by the end of 2025. Spending is anticipated at VT43,444.5 million. Therefore, the Government is expected to achieve a net operating surplus of VT1,734.1 million, which will represent 1.2 percent of GDP. However, after accounting for planned investments in non-financial assets totalling VT8,921.6 million, the overall budget is expected to show a recurrent fiscal deficit of VT7,185.7 million for the year. The Government plans to finance the deficit by reducing its financial assets, specifically withdrawing deposits amounting to VT6,162.2 million, and increase domestic borrowing (via Government bonds) by VT3,426.4 million. Furthermore, the Government is expected to reduce its external liabilities by VT2,401.1 million by the end of 2025 fiscal year.

7.5. Monetary and financial outlook

Money growth is expected to be solid in 2025, driven by both net foreign assets and domestic credit. Net foreign assets are expected to grow by 9.0 percent owing to net inflows from external grants, budget support and external financing for post-earthquake recovery and public infrastructure project, remittances, returns on financial investments from abroad and gradual recovery in tourism earnings. Domestic credit is expected to increase by 12.2 percent owing mainly to private sector lending as demand for credit is expected to increase to support economic recovery. Growth in net credit to Government is expected to be steady as substantial inflows towards post-earthquake recovery and other public infrastructure projects are expected to offset the domestic borrowings that the government took on during this year.

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. The deterioration in asset quality is anticipated to improve as economic environment continues to recover.

While stability is expected to continue in short to medium term, downside risks remain such as increasing NPLs as well as slower than expected recovery in the tourism sector. Overall, credit risk remains the major risk on the asset side of the bank's balance sheet. The persistent issues surrounding correspondent banking relationship (CBR) remain a major risk to maintaining financial stability in the short to medium term.

¹² GFS August 2025

7.6. Inflation outlook

Based on prevailing domestic and external economic conditions, Vanuatu's headline inflation is anticipated to remain within RBV's annual inflation target band of 0-4 percent until the end of 2025.

As outlined in Sections 3 and 3.1, global inflation is anticipated to ease in 2025 and 2026, accompanied by a forecasted decline in global commodity prices over the same period. Section 4 further highlights that inflation among Vanuatu's major trading partners has moderated and is expected to continue this trend in 2025 and 2026, except in the United States, with lagged effects likely to influence domestic inflation. The risks to this inflation outlook are skewed to the downside, primarily due to anticipated price reductions among key trading partners, notably Australia, New Zealand, and China. However, upside risks persist, including ongoing geopolitical tensions that may elevate freight costs, a potential rebound in Australia's economic growth and price levels, and depreciation of the Vatu against the USD or AUD.

On the domestic front, post-earthquake economic recovery is expected to stimulate demand in 2025 and 2026, thereby exerting upward pressure on prices. Domestic food prices are projected to remain low outside the cyclone season but may increase during it. Average domestic fuel prices declined by 10 percent year-on-year in September 2025, although they are expected to remain volatile in line with global crude oil price movements. Inflation risks are tilted to the upside. Cyclone-related disruptions during the cyclone season (November to April 2026) is expected to place upward pressure on domestic prices. Nevertheless, downside risks remain should cyclones not occur, particularly if supported by appropriate fiscal and monetary policy responses.

Overall, Vanuatu's exchange rate regime continues to serve as a nominal anchor, with imported inflation expected to mirror trends in trading partner economies.

7.7. Official reserves outlook

Based on current economic and financial conditions, official foreign reserves are expected to reach VT76.1 billion by the end of December 2025, primarily supported by net inflows associated with recovery efforts and public infrastructure projects. However, risks to this outlook are skewed to the downside. Key risk factors include elevated government external debt servicing costs, exchange rate volatility against major trading partner currencies, and anticipated increases in import payments for construction materials and other goods and services required to support economic recovery.

7.8. Exchange Rate outlook

In light of recent domestic and international developments, including recent central bank interest rate cuts, the Vatu is expected to appreciate against the US Dollar while depreciating against the Euro, NZD, and AUD from the fourth quarter of 2025 to the third quarter of 2026¹³.

With all other factors being equal, an expected appreciation of the Vatu relative the United States Dollar (USD) would make imports priced in USD less expensive, thereby helping to lessen domestic price pressures. External debt repayments denominated in USD are also expected to decrease. However, this scenario may be accompanied by lower tourism receipts, remittances, and investment income denominated in USD.

¹³ Source: Financial Markets Department (using Bloomberg Composite forecast as of the 16 October 2025)

Conversely, assuming other conditions remain constant the depreciation of the Vatu relative to the Euro, New Zealand Dollar (NZD), and Australian Dollar (AUD), would result in higher costs for import payments denominated in these currencies. This would also increase external debt repayments denominated in these currencies, thereby widening the trade balance deficit. These adverse effects may be partially offset by improved export earnings and higher investment income received in these currencies.

8. Monetary Policy Stance

The RBV remains committed to its mandate of price stability and sound financial conditions. The Bank considers the current monetary stance appropriate for supporting macroeconomic and financial stability. Price stability has been broadly maintained, with annual inflation expected to remain within the RBV's target range of 0–4 percent at the end of 2025. Foreign reserves are projected to remain adequate through to the end of the year. Financial stability has been achieved in the short to medium term, supported by prudent monetary operations and effective liquidity management. The RBV continues to sterilize excess liquidity through open market operations to ensure monetary conditions remain conducive to stability. The Bank also note that expansionary fiscal measures, in particular domestic borrowing may undermine monetary stability if not well contained.

With the abovementioned developments, the RBV Board judged that in light of Vanuatu's ongoing economic recovery, maintaining the current monetary policy stance is more appropriate for supporting macroeconomic stability. During its meeting on the 14th of October Board agreed to keep the RBV rediscount/policy interest rate at 2.75 percent, the Statutory Reserve Deposit ratio at 5.50 percent, the Capital Adequacy Ratio (CAR) at 12 percent and Liquid Asset Ratio (LAR) at 10 percent. Also, that the RBV continue to sterilize excess liquidity through open market operations, with RBV notes issued remaining steady at VT1.9 billion per month.

The RBV remain vigilant in monitoring domestic and global economic developments and stands ready to adjust its policy measures as necessary to safeguard monetary and financial stability.

