

# RESERVE BANK OF VANUATU



## MONETARY POLICY STATEMENT

March 2026

# **Reserve Bank of Vanuatu**



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## 1. Statement by the Governor

Since the September 2025 Monetary Policy Statement (MPS), global growth has remained broadly stable but uneven, with the International Monetary Fund projecting 3.3 percent growth in 2026 followed by a slight easing in 2027, while inflation continues to moderate. However, recent geopolitical tensions in the Middle East have heightened risks through higher energy prices, supply disruptions, and renewed inflationary pressures. Global trade is expected to slow in the near term before recovering, while financial conditions remain supportive but increasingly exposed to volatility and risk sentiment. Growth among Vanuatu's key trading partners remains moderate, though outlooks are clouded by persistent external uncertainties and risks to the growth outlook are increasingly tilted to the downside.

Domestic economic activity has remained positive with broad-based growth across all sectors. Agriculture production benefited from favourable weather and strong commodity prices, industry was driven by construction and infrastructure investment, and services expanded with tourism recovery and strong domestic demand. Looking ahead, growth is expected to remain positive, supported by ongoing investment and recovery, though rising imports and moderating consumption may temper the pace of expansion.

The Central Government recorded a strong fiscal performance, with a substantial surplus in 2025, improving significantly from a deficit in 2024. This strong position continued into early 2026, supported by higher-than-expected revenue and contained spending, resulting in continued fiscal surpluses and reduced domestic debt.

Monetary conditions remain supportive, driven by strong private sector credit and increased net foreign assets. The banking sector remains sound, well-capitalised, and highly liquid, with improving asset quality and strong profitability, although credit concentration and non-performing loans remain key risks. Looking ahead, monetary conditions are expected to remain accommodative, supporting continued credit growth and economic recovery.

Headline inflation remained within the target range in 2025 and is expected to stay within the band in the near term, while foreign reserves remain adequate and are projected to stay above four months of import cover through 2026. Although external pressures may push inflation towards the upper bound, the impact is expected with a lag, allowing time for policy adjustment if needed. Accordingly, the Reserve Bank of Vanuatu (RBV) maintained an unchanged policy stance, keeping key settings steady while continuing to manage liquidity and closely monitor domestic and global developments to safeguard price and financial stability while supporting economic development.



MR August LETLET  
**GOVERNOR**  
Reserve Bank of Vanuatu

## 2. Objectives of Monetary Policy

The Reserve Bank of Vanuatu (RBV) Act No. 37 of 2025 outlines the RBV's primary objective as achieving and maintaining domestic price stability. Its secondary objective is to contribute to the stability of the financial system in Vanuatu and its third objective is to support the Government's general economic policies.

The RBV maintains price stability through two key policy targets. First, it aims to keep inflation within a target range of 0-4 percent, ensuring that the general price level remains low and stable. Second, the RBV seeks to maintain gross official reserves at a level sufficient to cover at least four months of projected imports, thereby supporting external stability and strengthening confidence in the economy. In addition, the RBV operates under a pegged exchange rate regime, which serves as a nominal anchor for monetary stability and underpins the achievement of price stability.

Since the September 2025 MPS, RBV's policy targets have consistently been achieved. Preliminary figures in March 2026 show gross official reserves at VT82,550.4 million exceeding the RBV's minimum import cover threshold. Large inflows of foreign reserves were mostly supported by government bilateral development assistance.

Annual inflation has continued to ease through 2025. In the December quarter of 2025, inflation declined to 0.8 percent, reflecting low global commodity prices, appreciation of the Vatu against the US dollar, and the absence of constraints or shocks to domestic food supply.

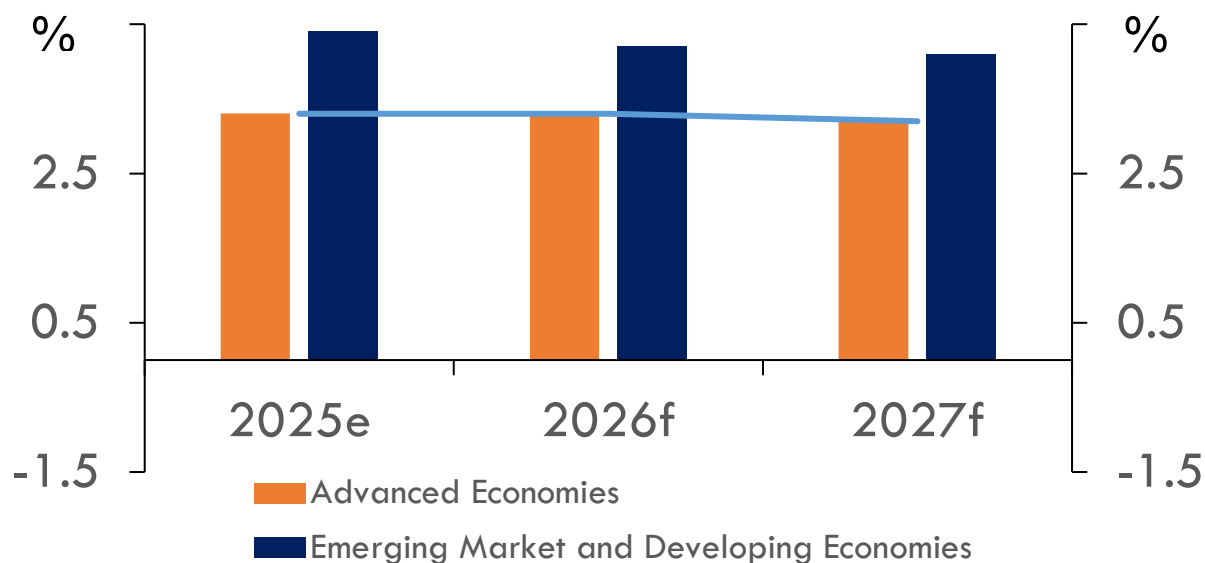
The RBV's conduct of open market operations has been its main instrument for liquidity management, through weekly issue of VT1,900 million worth of RBV notes to absorb excess liquidity in the financial system. In addition, a Statutory Reserve Deposit (SRD) ratio of 5.50 percent is imposed by the RBV on commercial banks' deposits each month to control banking system liquidity. These have been the main monetary policy tools for achieving domestic price stability.

## 3. International Economic Development and Outlook

### 3.1 Global Developments and Expectations

Since the September 2025 MPS, global economic growth has remained relatively resilient, though uneven across regions. Earlier expectations were for growth to moderate slightly as tighter monetary policy and weaker trade weighed on economic activity. According to the January 2026 World Economic Outlook by the International Monetary Fund (IMF), global growth is projected to remain broadly stable at 3.3 percent in 2026, similar to the estimated 3.3 percent in 2025, before easing slightly to 3.2 percent in 2027. Growth in advanced economies is expected to strengthen modestly to 1.8 percent in 2026 from 1.7 percent in 2025, supported by resilient domestic demand in the United States and improving activity in parts of the Euro Area. In contrast, growth in emerging market and developing economies is projected to moderate from 4.4 percent in 2025 to 4.2 percent in 2026, reflecting weaker momentum in China and softer activity in several commodity-exporting economies. However, the escalation of conflict in the Middle East since February 2026 has increased downside risks to the global outlook by heightening geopolitical uncertainty and raising energy costs, which could weigh on investment, consumption, and global economic activity if tensions persist.

**Chart 1: Global Economic Growth**  
(Annual growth in percent)



Source: International Monetary Fund, January 2026 World Economic Outlook

**Global inflation** continued to moderate through late 2025 as supply chain pressures eased and the effects of earlier monetary tightening took hold. The IMF projects global headline inflation to decline from 4.1 percent in 2025 to 3.8 percent in 2026, and further to 3.4 percent in 2027, reflecting softer demand and earlier declines in energy prices. More recently, however, inflation risks have resurfaced following rising geopolitical tensions in the Middle East. Oil prices increased above US\$103.7<sup>1</sup> per barrel in March 2026, partly reflecting disruptions to shipping and energy infrastructure near the Strait of Hormuz<sup>2</sup>, a key global energy transit route. The IMF<sup>3</sup> estimates that a sustained 10 percent increase in oil prices could raise global inflation by about 40 basis points, potentially slowing the disinflation process underway in many economies. In response, the International Energy Agency (IEA) and its member countries have coordinated the release of strategic oil reserves to stabilize energy markets and limit further price pressures. Nevertheless, geopolitical developments have introduced renewed upside risks to global inflation.

**Global trade** growth is expected to moderate in the near term amid policy adjustments and evolving global conditions. According to the IMF, global trade volume growth is projected to slow from 4.1 percent in 2025 to 2.6 percent in 2026, before recovering to 3.1 percent in 2027. The slowdown partly reflects the normalization of earlier front-loaded trade flows and adjustments to new trade policies. At the same time, strong demand for technology-related exports, particularly from Asian economies, continues to support trade activity. Trade tensions also eased somewhat following a temporary truce between the United States and China that reduced tariffs and paused export controls until late 2026, although policy uncertainty remains elevated relative to earlier periods. More recently, instability in the Middle East has affected key maritime routes and energy supply chains around the Strait of Hormuz, through which roughly one-fifth of global oil shipments, particularly for Asia, passes. These disruptions have increased shipping costs, triggered rerouting of energy cargo, and added uncertainty to global

<sup>1</sup> <https://www.worldbank.org/en/research/commodity-markets>

<sup>2</sup> <https://economymiddleeast.com/news/imf-global-growth-risks-energy-shock-march-2026-middle-east/>

<sup>3</sup> <https://www.reuters.com/world/middle-east/imfs-georgieva-warns-middle-east-conflict-could-push-global-inflation-higher-2026-03-09>

logistics networks. While global trade volumes remain broadly stable, continued disruptions could increase transportation costs and slow the pace of international trade growth.

**Global financial conditions** have remained broadly accommodative since late 2025, supported by strong investor sentiment, elevated equity prices, and relatively narrow credit spreads amid expectations of gradual monetary policy easing. Favourable financing conditions and low currency volatility have supported portfolio inflows to emerging markets, enabling strong sovereign bond issuance and improved market access for lower-rated borrowers. Market volatility increased in November 2025 amid concerns over elevated valuations in the rapidly expanding artificial intelligence sector. At the same time, rising global sovereign debt and a shift toward shorter debt maturities have contributed to higher short-term interest rates and periodic central bank liquidity support. Recent geopolitical tensions have further increased financial market sensitivity to energy price movements and global risk sentiment, contributing to fluctuations in equity and bond markets. If tensions persist, higher risk aversion and energy-driven inflation pressures could tighten global financial conditions, particularly for emerging markets exposed to shifts in capital flows and borrowing costs.

Overall, while global growth remains stable, the evolving geopolitical environment presents downside risks through higher energy costs, tighter financial conditions, and slower trade growth, with potential implications for Vanuatu's import prices, external balances, and overall economic outlook.

### 3.2 Developments in Vanuatu's Main Trading Partners and Forecast<sup>4</sup>

Since the September 2025 MPS, developments among Vanuatu's main trading partners show moderate growth amid mixed inflation and labour market conditions, while the recent Middle East conflict has introduced downside risks to the 2026 outlook.

In the *United States (US)*, real Gross Domestic Product (GDP) grew 1.4 percent in the fourth quarter of 2025, annual inflation reached 2.4 percent and unemployment was 4.4 percent in February 2026; the Federal Reserve cut policy rates twice since the previous MPS to 3.50–3.75 percent and has held them steady since, the US trade in goods and services deficit rose 57.6 percent from January 2025. *Australia's* economy expanded by an annual 2.6 percent in the December quarter of 2025, with annual inflation at 3.8 percent and unemployment at 4.1 percent in January, and the Reserve Bank of Australia raising the cash rate to 4.10 percent in March 2026; after holding at 3.6 percent in November 2025. The goods trade deficit widened slightly (AUD 742 million) in January. *New Zealand* recorded 3.1 percent annual inflation and 5.4 percent unemployment in December 2025. The Reserve Bank of New Zealand's policy rates were held at 2.25 percent in February following late-2025 cuts, while the January trade deficit amounted to NZD 519 million. In the *Euro Area*, annual GDP grew 1.2 percent in the fourth quarter of 2025. Annual inflation rose to 1.9 percent in February, unemployment fell to 6.1 percent in January, as the European Central Bank held its key financing rate, deposit facility and marginal lending rate unchanged at 2.15 percent, 2.00 percent and 2.40 percent, respectively since the September 2025 MPS. The Euro Area posted a €12.6 billion goods trade surplus in December 2025.

Looking ahead, the IMF forecasts economic growth in 2026 of 2.1 percent for both the United States and Australia, 2.2 percent for New Zealand, and 1.3 percent for the Euro Area. While resilient domestic demand is expected to support activity in these economies, elevated energy prices, trade disruptions, and financial market volatility associated with the Middle East conflict may dampen consumption,

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<sup>4</sup> The US Bureau of Economic Analysis, the US Labor Statistics, the Federal Reserve Bank, the European Central Bank, Eurostat's, the Reserve Bank of Australia, the Australian Bureau of Statistics, the Reserve of New Zealand, StatsNZ, the International Monetary Fund (IMF) January 2026 world economic outlook

investment, and external trade, potentially tightening global financial conditions and affecting Vanuatu's external sector.

## 4. Vanuatu Economic Development and Outlook

The following section provides a detailed assessment of current<sup>5</sup> domestic economic activities and forward looking expectations based on the results of the February 2026 Business Expectations Survey (BES), available official economic indicators and the GDP growth projections of the Macroeconomic Committee (MEC).<sup>6</sup> It also presents a comprehensive overview of activities and the outlook across the fiscal, monetary, financial, and external sectors.

### 4.1 Economic Activity and Outlook<sup>7</sup>

Since the September 2025 MPS, domestic economic activity has remained positive, with recent indicators and the results of the BES pointing to a broad-based expansion across the agriculture, industry, and services sectors. On a net basis, 56 percent of businesses reported improved performance, with stronger outcomes in agriculture, forestry and fisheries, followed by services and industry sectors. In line with this, the most recent MEC forecasts show growth at 3.7 percent in 2025, with positive contributions from all sectors: agriculture (5%), industry (8.6%), and services (3.2%).

Growth in the agriculture, forestry, and fisheries sector reflected the absence of cyclones, higher crop production and favourable export prices for key tradable commodities. In the industry sector, expansion in the construction subsector, driven by sustained infrastructure development and post-earthquake reconstruction, contributed to higher gross fixed capital formation and investment activity. In the services sector, continued tourism recovery supported activity in tourist related sectors. Looking ahead, growth is expected to remain positive across sectors, supported by ongoing reconstruction, infrastructure development, tourism recovery, and higher commodity prices, with expenditure components—consumption, investment, and net exports—continuing to play a complementary role in sustaining overall economic expansion.

#### 4.1.1 Agriculture, Forestry, and Fishing Sector

Strong performance of the agriculture, forestry, and fishing sector in the current period was supported by favourable weather conditions, firm external demand, and significant increases in producer prices, which helped offset ongoing structural and climate-related constraints. Performance across key tradable commodities was strong, underpinned by both higher production and substantial price gains. Copra production increased by 106.2 percent in 2025 relative to 2024, while average producer prices rose from VT40,000 to VT67,500 per ton. The BES findings indicate a few copra buyers purchasing copra at much higher prices around VT93,000–VT99,000 per ton in early 2026. Similarly, cocoa production expanded by 156.2 percent, supported by favourable weather and peak harvest cycles. Although official data reported average prices rising marginally to VT327,500 per ton in 2025 (VT324,207 per ton in 2024), BES results show significantly higher prices offered by certain buyers, reaching VT700,000 per ton. Coconut oil exports also increased by 19.8 percent. In contrast, the volume of kava exports, a proxy for kava production, declined by 1.4 percent in 2025; implying higher domestic demand. However, kava export earnings rose by 7.0 percent, reflecting stronger export prices for

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<sup>5</sup> Current period is from September 2025 to March 2026

<sup>6</sup> MEC met on the 10<sup>th</sup> of April 2026

<sup>7</sup> Assessment are based on the chain link GDP estimation methodology which could not compared to the same data in the September 2025 MPS

kava. The average export price for kava increased by 7.9 percent relative to 2024. Fish production also improved, with export volumes rising by 13.9 percent in 2025.

In contrast, other tradable commodities recorded weaker performances. Beef production declined, as reflected in lower slaughter numbers (-9.8%), total weights (-12.3%), and carcass yields (-2.6%) relative to 2024. Despite a significant annual increase in average export prices (+94.8%), beef export volumes fell sharply (-77.8%), largely due to reduced cattle supply amid strong domestic demand. Similarly, coffee production remained subdued, with export volumes declining significantly (-81.6%) despite higher average export prices (+19.5%) in 2025, as more output was absorbed by the recovering domestic tourism market. The forestry subsector recorded moderate performance, constrained by short-term supply limitations due to a decline in sawmill operations. This resulted in increased timber imports. Meanwhile, non-tradable agricultural products, including small livestock, eggs, fruits, root crops and vegetables, and fish, recorded positive growth, supported by favourable weather conditions, strong domestic demand, and the continued recovery in tourism.

From an expenditure perspective, developments in the sector were transmitted through consumption, investment, and net exports. The substantial increase in producer prices for key commodities such as copra, cocoa, and kava significantly boosted rural incomes, which in turn supported household consumption. This is reflected in the BES results indicating a net 45 percent increase in business sales, highlighting stronger consumption demand across the economy. Strong production and high prices for export-oriented commodities supported overall export earnings, contributing positively to net exports. In addition, BES findings indicate a net 50 percent increase in capital investment, including farm expansion, machinery purchases, and new processing facilities, reflecting a rise in gross fixed capital formation and continued capacity building within the sector.

According to the MEC, the agriculture, forestry, and fishing sector is projected to grow by 4.4 percent in 2026, before moderating to 3.7 percent in 2027, with BES results also indicating continued expansion over the next six months. Near-term growth is expected to be driven by strong production of copra, cocoa, and kava, supported by favourable weather conditions, relatively high commodity prices, and sustained external demand. Higher producer incomes are expected to further support household consumption and business activity, while ongoing investment in production capacity will help sustain output growth. In addition, infrastructure improvements—particularly the near completion of the Vanuatu Climate Resilient Transport Project in Santo—is expected to enhance market access and facilitate the distribution of both tradable and non-tradable goods across key producing areas. By 2027, growth is expected to stabilise as production conditions normalise and growth returns to a more sustainable pace.

#### 4.1.2 Industry Sector

Growth in the industry sector is driven by broad-based gains across all subsectors. Construction was the primary driver, supported by post-earthquake demolition and reconstruction, the government's earthquake stimulus<sup>8</sup> program and donor-funded infrastructure projects. Key projects underpinning growth include the Pentecost Road, Vanuatu Climate Resilient Transport Project Phase II (South Santo Road), Tanna Road Phase III, the Efate Ring Road Rehabilitation Project, Ambae Road, and the Vanuatu Energy Access Projects.

Proxy indicators point to strong construction activity, with cement imports increasing by 26.1 percent in 2025 relative to 2024, while imports of construction materials rose by 10.4 percent in value and 15.1

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<sup>8</sup> In order to address the impact of the earthquake of December 17, 2024 the Government launched a number of stimulus packages to help safeguard jobs (wage subsidy), supported small businesses (loan guarantee scheme), and revived economic confidence (tourism recovery grant).

percent in volume. BES results confirm that reconstruction activity in Port Vila, alongside increased infrastructure development in Luganville, contributed significantly to sectoral growth.

The expansion in construction generated notable spillovers to related subsectors. Activity in electricity and water, as well as mining and quarrying, increased in line with construction demand. Rural electrification projects further supported utilities, while BES findings indicate that increased demand for borehole drilling also contributed to growth. Supporting this, energy consumption rose by 9.6 percent in 2025, suggesting an expansion in the customer base and economic activity, although fuel import volumes declined by 42 percent, potentially reflecting lower import costs and improved energy efficiency or substitution effects.

Manufacturing activity also strengthened, supported by the recovery in tourism, particularly the resumption of cruise ship arrivals, which boosted demand for handicrafts, beverages, and agro-processed products. In addition, the BES findings indicate increased demand for processed timber from local sawmills linked to increasing construction activities.

From an expenditure perspective, industry sector developments were primarily driven by investment and consumption. Strong construction and infrastructure activity translated into a significant increase in gross fixed capital formation, reflecting both public and private investment. At the same time, BES results indicate a net increase of 27 percent in business sales, suggesting stronger household consumption, particularly for construction-related goods and manufactured products. However, the increase in imports of construction materials and intermediate goods implies a negative contribution from net exports, partially offsetting gains from domestic demand.

In terms of the outlook, the MEC projects the industry sector to grow by 9.8 percent in 2026, before moderating to 8.6 percent in 2027. Near-term growth is expected to be driven by ongoing reconstruction efforts and major infrastructure developments, including airport extensions, development of secondary airports, expansion of maritime infrastructure, and road maintenance, alongside continued donor-funded initiatives and rural electrification projects. BES results indicate sustained optimism, with activity expected to expand over the next six months, supported by strong investment, particularly increased capital expenditure. However, rising imports to meet production and construction needs are expected to partly offset growth. By 2027, growth is projected to ease as major reconstruction and infrastructure projects near completion, with the sector increasingly supported by domestic demand and a more stable manufacturing base.

#### 4.1.3 Services Sector

Growth in the services sector is steady in the current period, supported by the gradual recovery in tourism and its spillover effects across key subsectors, including wholesale and retail trade, accommodation and food services, transport, and information and communication.

Tourism activity improved notably in the fourth quarter of 2025, with total visitor arrivals increasing by 104.4 percent year-on-year, driven by growth in both air arrivals (+36.4 percent) and day visitors (+159.9 percent). However, total arrivals for the year remained 4.0 percent below 2024 levels, reflecting delays in the resumption of cruise ship arrivals to Port Vila until August 2025 and ongoing domestic connectivity constraints. Tourism activity in the current period remained highly concentrated in Port Vila, while Luganville recorded visitor arrivals only in the first quarter of 2025, with an insignificant number of arrivals in subsequent quarters. Consistent with this, the BES findings indicate that tourism activity in Luganville remained subdued throughout 2025.

Apart from the contribution of tourism, growth was supported by strong performance in several domestic-oriented subsectors. According to the BES, wholesale and retail trade recorded robust growth,

driven by seasonal high spending during the festive period and back-to-school demand from late December to January, as well as sustained demand for construction materials from private individuals and ongoing post-earthquake reconstruction and infrastructure projects.

Transport and logistics services also strengthened, reflecting increased trade volumes associated with consumption and infrastructure projects, as well as more frequent shipping movements. In addition, post-earthquake reconstruction efforts on Port Vila ports and increased economic activities in Luganville supported stevedoring services in the current period.

Accommodation and food services recorded mixed performance. While overall tourism demand outside of Port Vila remained constrained by domestic connectivity issues, some operators—particularly in Luganville—benefited from increased domestic travel and the temporary hosting of conferences and events following the 2024 earthquake in Port Vila.

The information and communication sector recorded solid growth, supported by ongoing broadband upgrades and network expansion, which improved service delivery and increased data usage and revenues. In contrast, postal services declined by 3.8 percent in 2025, reflecting reduced outbound international mail, although inbound international and domestic mail volumes increased.

Financial intermediation continued to expand, supported by increased bank account openings and lending activity, particularly among seasonal workers and microfinance clients, indicating improved financial inclusion and access to financial services and products.

Real estate activity in Port Vila also accelerated significantly, with property prices rising sharply in response to strong post-earthquake demand, while activity in Luganville remained constrained by land-related issues.

From an expenditure perspective, developments in the services sector were primarily driven by strong household consumption and robust investment activity. Increased demand for retail goods, transport services, and communication services translated into higher business sales, reflecting strengthened household consumption. At the same time, BES results indicate an increase in capital investment, particularly in retail and storage infrastructure, port upgrades, hotel improvements, and telecommunications expansion, contributing to growth in gross fixed capital formation. Businesses within this sector indicated that imports increased significantly reflecting strong domestic demand for goods and services despite the gradual recovery in services exports (tourism).

Based on current developments, the MEC projects the services sector to expand by 3.3 percent in 2026 and 3.6 percent in 2027, supported by the continued recovery in tourism and related services. Improvements in domestic connectivity, the resumption of cruise ship arrivals, and upgrades to port infrastructure are expected to further support visitor growth and overall service sector activity. BES results also indicate expansion in information and communication services, contributing to sectoral growth. However, business sales are expected to moderate over the next six months, suggesting a gradual easing in consumption growth, while investment activity remains relatively resilient. Although exports of services are anticipated to increase, rising imports, particularly in fuel-dependent subsectors supporting tourism, are expected to weigh on net growth in the sector.

## 4.2 Fiscal Development and Outlook

The Central Government recorded a strong fiscal performance in 2025, with a net recurrent operating surplus of VT13,208.7 million, significantly higher than VT2,459.6 million in 2024. After accounting for the net acquisition of non-financial assets of VT3,542.1 million, the overall fiscal position resulted in a net lending surplus of VT8,906.5 million, compared to a fiscal deficit of VT2,037.5 million in 2024.

From January to February 2026, fiscal performance was strong, with government revenue exceeding expectations. Total revenue was 11.8 percent above the budget forecast for the period and 21.2 percent higher than collections in the same period of 2025, supported by robust performance across key revenue streams, including Value Added Tax (VAT), excise duties, taxes on international trade, and the Honorary Citizenship Program. Recurrent expenditure amounted to VT 6,475.5 million, representing 10.7 percent below the budget forecast and broadly in line with spending recorded in the same period of 2025, largely reflecting under-execution in compensation of employees. Capital expenditure also remained subdued, highlighting persistent delays in project implementation due to administrative bottlenecks and weather-related challenges. As a result, the Government recorded a net operating surplus of VT5,942.7 million and an overall fiscal surplus (net lending position) of VT5,727.2 million for the year to February 2026. No domestic debt was issued during the period, while VT933.1 million in Treasury Bills was repaid.

In terms of macroeconomic linkages, current fiscal developments have implications for both production and expenditure components of GDP. From the production perspective, the current under-execution of capital spending constrains near-term expansion in construction and related sectors, potentially delaying the full realization of value added from public investment. However, the strong revenue outturn and resulting fiscal surplus provide the Government with increased capacity to scale up infrastructure and development spending later in the year, which would support output across key industries. From the expenditure perspective, subdued government spending in the early months suggests a limited contribution of public consumption and investment to aggregate demand thus far. Nonetheless, the strong fiscal position and repayment of domestic debt helped maintain favourable liquidity conditions and fiscal space, supporting confidence and enabling higher public expenditure in the coming months. As fiscal activity typically accelerates over the course of the year, a stronger contribution to both domestic demand and productive capacity is expected, reinforcing overall economic growth.

In 2026<sup>9</sup>, recurrent revenue is projected to increase by 11.0 percent, supported by stronger economic activity, which is expected to boost household consumption and, in turn, drive VAT collections. This will be complemented by continued inflows from the Honorary Citizenship Programme and increased budget support from development partners. At the same time, the Government is expected to rely on domestic financing through new debt issuances and the rollover of existing obligations. Recurrent expenditure is projected to rise moderately by 3.7 percent, driven primarily by higher spending on goods and services, compensation of employees, subsidies, and social benefits. In contrast, capital expenditure (acquisition of fixed assets) is expected to moderate, while debt servicing obligations, both domestic and external, are projected to increase.

From a macroeconomic perspective, the projected higher recurrent spending will support household incomes and consumption, reinforcing domestic demand, while government consumption will continue to contribute positively to aggregate demand. However, the moderation in capital expenditure may temper the contribution of public investment to overall demand. On the production side, increased recurrent spending, particularly on wages and services, will support activity in sectors such as public administration, retail, and other service industries, while the slower pace of capital spending may limit near-term expansion in construction and infrastructure-related sectors. Overall, fiscal policy in 2026 is expected to remain supportive of economic activity, with domestic demand continuing to underpin GDP growth.

### 4.3 Monetary Developments and Outlook

Monetary conditions remain supportive of growth. Money supply (M2) expanded to VT140,153.3 million in February 2026, representing an annual growth of 8.0 percent. This increase was driven by

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<sup>9</sup> Department of Finance and Treasury and Budget Book 2026

both domestic credit, reflecting robust growth in private sector credit and net foreign assets (NFA). In terms of composition, monetary growth continues to be largely driven by narrow money (M1), particularly currency in circulation and transferable deposits, while other deposits declined over the year to February 2026.

Net foreign assets rose to VT104,973.7 million in February 2026, increasing by 9.9 percent over the year. This growth reflects net inflows through both the RBV and commercial banks, largely associated with inflows related to government-related services and infrastructure projects and RBV's investment income from abroad. The Government's net credit position with the banking system deteriorated over both the month and the year to February 2026, primarily reflecting a decline in government deposits held with the RBV. Private sector credit increased by 6.4 percent year-on-year, driven mainly by lending to businesses, such as professional and other services, distribution, tourism, construction, transport, and manufacturing, consistent with the ongoing post-earthquake recovery. However, personal loans account for the largest share of credit, followed by loans for residents housing and land purchases.

Reserve money remained elevated, standing at VT61,134.0 million. In terms of its components, statutory reserve deposits reached VT5,613 million, excess reserves at VT32,824.9 million and currency in circulation at VT18,021.3 million.

The outlook for the monetary sector in 2026 remains positive, with M2 projected to expand further, supported by continued growth in both NFA, relating to continuous inflows via government-related services and donor-funded projects and RBV investment income and domestic credit, as private sector credit is expected to maintain its robust upward trajectory, in line with strengthening economic activity. Net claims on the Central Government are projected to rise further; however, may be partly offset by improved government revenue collections and continued inflows of external budget support. Meanwhile, excess reserves are expected to remain at elevated levels, indicating ample liquidity within the banking system.

Monetary development and outlook play a central role in supporting economic activity in 2026, with strong linkages to both production and expenditure components of GDP. From the production perspective, increased lending to businesses will facilitate higher output across key sectors, reflecting ongoing recovery and investment expansion. At the same time, the rise in Government net credit with the banking system is likely to accelerate infrastructure development and public sector projects, further boosting value added across industries. Complementing this, sustained inflows reflected in net foreign assets—particularly those associated with donor-funded and recovery-related projects—will provide critical financing for capital formation and productive activities, reinforcing overall output growth. From the expenditure perspective continued expansion in private sector credit, including personal and business lending, will support higher household consumption and private investment. Meanwhile, increased net credit to government alongside external inflows will underpin public expenditure, especially on infrastructure and recovery efforts. Inflows through net foreign assets will also support the external sector by facilitating imports of capital and intermediate goods essential for production, while strengthening foreign exchange availability. Overall, the combined expansion in private sector credit, increase in net credit to government, and net foreign assets is expected to sustain favourable liquidity conditions, reinforcing both domestic demand and productive capacity, and thereby supporting broad-based economic growth.

#### 4.4 Financial Sector Developments and Outlook

The banking sector is adequately capitalised as the average Capital Adequacy Ratio (CAR) recorded 23.8 percent over the year to December (23.3%: 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 VT1.5 billion during the last

quarter of 2025, higher by 23.5 percent in the same quarter of 2024. Net income (after tax and provisions) increased by 66.5 percent over the year to record VT842.0 million at the end of December 2025. The annual provisioning expense declined by 16.6 percent to VT573.9 million in the December 2025 quarter. The lower figure was attributed to slight improvement in NPLs, as banks continued in their efforts to recover loans and tighten book management. Private sector credit is picking up, though high concentration (48.6 percent) remains to personal sector.

In general, NPLs decreased by 18.6 percent to VT9.4 billion (VT11.5 billion: Feb-25). The decrease was noted in higher risk categories as the decrease in doubtful and loss loans more than offset the increase in substandard loans. The share of NPL to total loans decreased to 10.2 percent (13.8%: Feb-26). Specific provisions decreased by 1.1 percent over the year to VT3.1 billion, reflecting decrease in high-risk loan categories, whilst general provisions decreased 13.3 percent to VT2.7 billion, owing to anticipated decline in credit impairments.

The total industry's liquidity was maintained at adequate levels, however continues to be unevenly distributed. On the 18th of March 2026, total liquid assets holdings stood at VT46.6 billion, compared to VT43.7 billion in the same period in 2025. LAR is positioned at 48.4 percent, (51.0% Mar-25), which is well above the minimum regulatory threshold of 5 percent.

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, including an increasing level of 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.

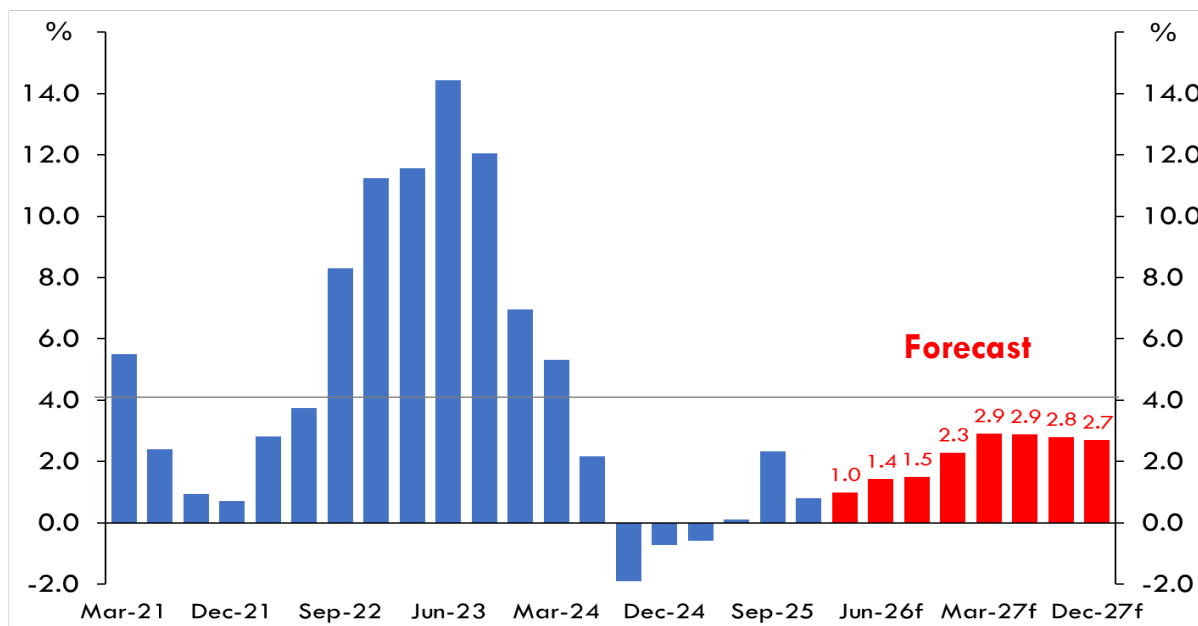
#### 4.5 Domestic Price Developments and Outlook - Policy Target 1

Annual inflation eased to 0.8 percent in the December 2025 quarter, down from 2.3 percent in the September quarter. Despite the moderation, price increases were recorded across the main urban centres—Port Vila (0.4%), Luganville (2.6%), and Lenakel (2.3%). Inflation was primarily driven by higher prices in communication (9.3%), clothing and footwear (8.7%), health (3.8%), transport (0.7%), food (0.5%), education (0.2%), and housing and utilities (0.1%), reflecting increases in items such as fresh produce, clothing, mobile phones, private health services, and personal care products.

The overall slowdown in inflation during 2025 reflects lower global commodity prices, which declined by 6.4 percent (compared to a 2.7 percent decline in 2024), easing inflation in key trading partners, including Australia (2.8 percent from 3.2 percent) and New Zealand (2.8 percent from 2.9 percent), and an appreciation of the Vatu against the US dollar, which reduced imported price pressures.

Headline inflation is projected to remain within the RBV's target range of 0–4 percent over the forecast horizon as depicted in Chart 2. Annual average inflation is expected to increase to around 1.5 percent in 2026 (0.7 percent: 2025), before rising to approximately 2.8 percent in 2027 and stabilising thereafter. This reflects strengthening domestic activity—supported by economic recovery, improved business sentiment, and higher export incomes—as well as external pressures, including geopolitical tensions, elevated fuel costs, and rising global food and commodity prices. The exchange rate regime will continue to serve as a key anchor for price stability, and the RBV stands ready to adjust monetary policy measures should upside risks to inflation materialise.

**Chart 2: Inflation Outlook**  
(Percent change, quarterly data)



Source: Vanuatu Bureau of Statistics Actuals, Reserve Bank of Vanuatu Forecast

Consistent with this outlook, the BES indicates moderate price pressures, with a net 18 percent of firms reporting price increases in the current period. The net balance is expected to rise slightly to 21 percent, suggesting that inflationary pressures will remain in the near term.

#### 4.6 Labour Developments and Outlook

Labour demand eased in 2025, with total job vacancies falling 4.5 percent from 2024, largely due to more modest openings in services and agriculture, fishing, and forestry sectors. The industry sector, however, recorded higher vacancies, reflecting strong demand for reconstruction work. Meanwhile, the stock of Vanuatu seasonal workers abroad rose 10.5 percent in 2025, and Vanuatu National Provident Fund (VNPF) membership increased 12 percent in the third quarter of 2025.

The BES indicators of current employment conditions point to moderate growth across all sectors, consistent with ongoing economic activity. The net balance of firms reporting increases in employment stands at 37 percent, suggesting that labour market conditions remain supportive, with broad-based job creation underpinning domestic economic activity.

Looking ahead, employment expectations point to a moderation in hiring activity across all sectors, in line with expectations of a more gradual pace of economic growth. Despite this moderation, employment intentions remain positive across all sectors, suggesting that labour market conditions are expected to remain resilient and continue supporting economic activity, albeit at a slower pace in the near term.

#### 4.7 External Sector and Outlook

Total exports of goods increased significantly by 18.1 percent in 2025 compared to 2024, while imports declined by 12.4 percent. Given that imports typically exceed exports in volume, this resulted

in an 18.4 percent narrowing of the trade in goods deficit. The improvement in export performance was mainly driven by higher earnings from key commodities, particularly copra (174.4%) and kava (7.0%), supported by favourable average export prices.

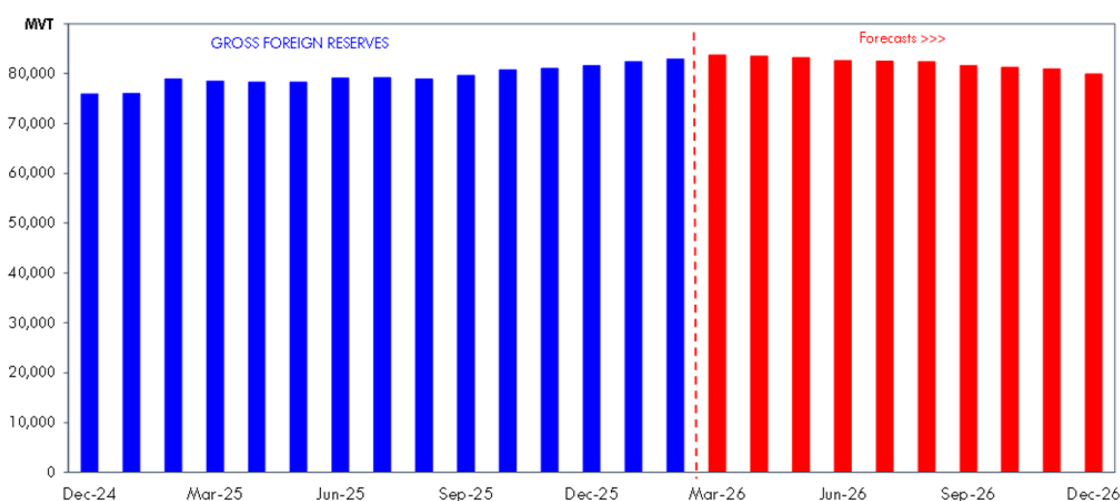
Business sentiment aligns broadly with official data, with a net balance of 10 percent of businesses reporting an increase in exports, while a net 54 percent of businesses indicated higher import demand. Export activity was supported by the agriculture and industry sectors, while services recorded negative sentiment, largely reflecting weaker performance in tourist-related exports outside Port Vila. On the import side, strong demand persisted across all sectors, indicating continued reliance on imported inputs and domestic supply constraints.

Looking ahead, export earnings are expected to increase, supported by strong production of key commodities such as kava, copra, and cocoa, although some moderation is anticipated for beef and coffee due to domestic supply constraints despite favourable export prices. Fish exports are projected to remain stable, reflecting ongoing export expansion efforts. Imports are expected to stay elevated, driven by high global food and fuel prices, partly linked to supply disruptions in the Strait of Hormuz. As a result, the trade balance is expected to remain in deficit, with negative net exports continuing to weigh slightly on GDP growth. Sustained import demand may also place pressure on foreign exchange reserves and contribute to imported inflation.

#### 4.8 Official Reserves Development and Outlook - Policy Target 2

Gross official foreign reserves remain at comfortable levels, reaching approximately VT82,550.4 million in March 2026, supported mainly by government-related inflows and central bank investment income, while outflows were largely associated with government debt servicing and foreign exchange sales to commercial banks for import payments.

**Chart 3: Gross Official Foreign Reserves Outlook**  
(Millions of Vatu)



Source: Reserve Bank of Vanuatu

Gross official foreign reserves are projected to moderate in 2026 but still remain above the minimum threshold of 4 months of import cover, largely reflecting increased external payment pressures. This outlook is driven by rising import demand associated with stronger domestic activity, elevated global commodity prices—particularly for food and fuel—and a slowdown in inward grant inflows, alongside

persistent global uncertainty. However, the expected decline in reserves is likely to be partly mitigated by effective policy responses from relevant authorities aimed at managing external pressures and supporting foreign exchange stability.

## 4.9 Exchange Rate Developments and Outlook

Exchange rate developments continue to be shaped by both domestic and external factors. Domestically, the ongoing economic recovery led to rising demand for foreign exchange transactions to finance imports, with implications for the management of the Vatu under the basket peg regime, particularly through trade and investment flows. In February 2026, the Vatu appreciated by 0.7 percent on a month-on-month basis against the US dollar, New Zealand dollar (2.2%), and euro (2.1%), while it depreciated against the Australian dollar (0.2%). This movement largely reflects monetary policy divergence across Vanuatu's main trading partners, particularly the Reserve Bank of Australia's tighter monetary stance, compared with other central banks that maintained their policy rates. On a year-on-year basis, the Vatu appreciated against the US dollar (5.0%) but depreciated against the Australian dollar (8.3%), New Zealand dollar (0.9%), and euro (7.8%).

The outlook for the Vatu remains uncertain, though it is expected to appreciate slightly against the US dollar while depreciating against the euro, New Zealand dollar, and Australian dollar over the period from the second quarter of 2026 to the first quarter of 2027<sup>10</sup>. This reflects evolving global risk conditions, elevated oil prices, and movements in basket currencies. The escalation of the Iran conflict has significantly increased global oil prices, raising the cost of fuel imports. Given Vanuatu's high dependence on imported fuel, food, and manufactured goods, higher import prices are expected to increase demand for foreign currency, placing downward pressure on the Vatu in the near term. On the export side, the impact is expected to be mixed. Higher global commodity prices may support earnings in some sectors, partially offsetting external pressures. However, the overall effect will depend on the balance between import demand and export performance, as well as ongoing developments in global financial and energy markets.

## 5. Monetary Policy Stance

In its meeting on the 8<sup>th</sup> of April, the RBV Board of Directors noted that global economic growth remains broadly stable, while inflation has gradually eased and financial conditions remain generally supportive. However, heightened geopolitical tensions between the United States and Iran have increased downside risks to the global outlook, including weaker growth, higher inflation from elevated oil prices, slower trade due to supply chain disruptions, and tighter financial conditions driven by increased market volatility and risk aversion.

The Board observed that inflationary pressures across Vanuatu's major trading partners remain elevated, while monetary policy settings are mixed. The Federal Reserve, the Reserve Bank of New Zealand, and the European Central Bank have either eased or maintained their policy rates, while the Reserve Bank of Australia tightened its monetary policy stance up to March 2026.

Domestically, the Board noted that the economy continues on a recovery path. Preliminary indicators, including the BES and official growth estimates, point to positive growth in 2025, supported by the recovery in tourism and continued strength in production and reconstruction activities, with momentum expected to carry into 2026. Monetary and financial conditions remain stable, while the fiscal position is assessed to be sound in 2025, with a broadly balanced budget projected for 2026.

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<sup>10</sup> Source: Bloomberg as at 31<sup>st</sup> March, supplied by Financial Markets Department

The Board noted that headline inflation remained at the lower end of the target range in 2025 and is expected to remain within the range in the near term, although emerging pressures may push inflation towards the upper bound. Gross official foreign reserves remain adequate and are projected to stay above the Bank's minimum threshold of four months of import cover through the end of 2026.

In its assessment, the Board recognized that while external pressures may contribute to higher inflation, official data for the March quarter 2026 are not yet available. The Bank's inflation model suggests that the impact of international price shocks will materialize with a lag of two to three quarters, allowing time for policy adjustment if required. Inflation is expected to remain within the target band over the policy horizon, while the external position remains resilient.

In view of the above developments, the Board considered it appropriate to maintain the current monetary policy stance and adopt a cautious, data-dependent and forward-looking approach. Accordingly, the Board decided to keep the policy rate unchanged at 2.75 percent, the Statutory Reserve Deposit at 5.50 percent, the Capital Adequacy Rate at 12.0 percent, and the Liquid Asset Rate at 5 percent. The RBV will continue to manage excess liquidity through open market operations, with RBV notes issuance maintained at VT 1,900 million per issue, while reducing the frequency of issuance from four times per month to three times per month.

The RBV will continue to closely monitor global and domestic economic developments and will adjust its policy settings, if necessary, to achieve its monetary policy objectives and maintain financial stability.

