VANUATU

JOINT WORLD BANK-IMF DEBT SUSTAINABILITY ANALYSIS

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VANUATU: JOINT BANK-FUND DEBT SUSTAINABILITY ANALYSIS	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Limited space to absorb shocks
Application of judgment	No

The 2023 Debt Sustainability Analysis (DSA) indicates that the risk of debt distress for Vanuatu remains moderate for both external and overall public debt, with limited space to absorb shocks; the rating is unchanged from the 2021 DSA.[1] External debt stock and liquidity indicators remain below their benchmark levels in the baseline scenario, given the concessional nature of Vanuatu's external borrowing, but stock indicators are vulnerable to natural disasters and macroeconomic shocks. A severe downside scenario with a full loss of Economic Citizenship Program (ECP) revenues would likely cause three external debt indicators to breach their benchmarks. The public debt stock and public debt service costs are forecast to grow over the long term, with increasing reliance on domestic borrowing necessitating the development of domestic debt markets. In light of these results, it is essential for Vanuatu to rebuild fiscal space and enhance resilience against shocks. Formulating a medium-term fiscal strategy with robust revenue mobilization and expenditure rationalization measures is essential to preserve sustainability and create space for growth-critical infrastructure. When financing new infrastructure, the authorities are encouraged to continue seeking grants and concessional loans.

[1] The composite indicator for Vanuatu is estimated at 2.99, based on October 2022 WEO and 2021 World Bank CPIA, indicating a medium debt carrying capacity.

PUBLIC DEBT COVERAGE

1. **The coverage of public sector debt for this DSA is central government debt, central government guaranteed debt, and central bank debt borrowed on behalf of the government.** The debt of Air Vanuatu is not included due to lack of data. Staff plans to work with the authorities based on information from ongoing and planned assessments by Australia's DFAT and the IFC (see Staff Report), and Air Vanuatu's updated financial statements, to address missing information on debt stock and flows in order to incorporate the debt of Air Vanuatu into the stock of government debt in the next DSA, if the SOE continues to pose significant fiscal risks (see paragraph 2). Because of data limitations, other elements in the general government, other non-guaranteed state-owned enterprise (SOE) debt, and private external debt are also not included in the analysis.[2] Given the limited capacity of Vanuatu's state and local governments, SOEs, and the private sector to borrow either externally or domestically, data deficiencies are not expected to affect the overall assessment. PFTAC continues to provide technical assistance to help the authorities expand the coverage of government financial statistics (GFS) from budgetary central government to general government and SOEs. The DSA uses a residency-based definition of external debt.

Coverage of Public Sector Debt

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

2. **The DSA includes a combined contingent liabilities stress test.** Contingent liability risks mostly stem from the financially distressed national air carrier, Air Vanuatu, as well as from other SOEs. Large cost overruns and an overambitious investment plan involving the order of six Airbus aircraft resulted in losses and brought the viability of the airline into question. In March 2021, the government took temporary control of Air Vanuatu in order to restructure the enterprise; the restructuring process is ongoing. While the contract with Airbus has been revised to reduce the number of aircraft and the associated liabilities, the airline remains in severe financial distress, which is affecting operations. The ongoing restructuring entails several significant fiscal risks: i) forgiveness of the VUV 2.1 billion (1.8 percent of GDP) in loans owed to the government by Air Vanuatu; and ii) transfer of the remainder of the airline's VUV 5.8 billion (5.1 percent of GDP) in debt, including costs associated with the Airbus contract, to the government as part of the restructuring process. The total debt of other non-financial SOEs was estimated at VUV 2.1 billion (1.8 percent of GDP) based on the most recent data available for each enterprise. In order to capture these

[2] While the financial statements of most State-Owned Enterprises (SOEs) are published online, these are only available with a significant lag. The GBE unit is working on collecting consolidated debt data.

risks, the magnitude of the shock of SOE debt has been adjusted from the default value of 2 percent to 8.7 percent of GDP.

Contingent liabilities from financial markets are set at the default value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in a low-income country.

Combined Contingent Liability shock

#	The country's coverage of public debt	The central government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	8.7	Air Vanuatu (7.9 percent of GDP); other SOEs (1.8 percent of GDP)
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			13.7	

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

BACKGROUND ON DEBT

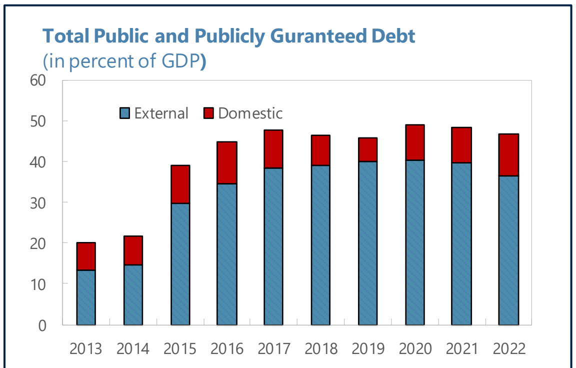
3. **Public and publicly guaranteed (PPG) debt was estimated at 46.6 percent of GDP at end-2022, having stabilized in recent years.** PPG debt more than doubled between 2014 and 2016 (from 21.6 to 45 percent of GDP), mainly due to new disbursements in support of reconstruction after Tropical Cyclone (TC) Pam, as well as infrastructure development support. Key bilateral and multilateral lenders over this period included the Export-Import Bank of China (China Eximbank), the Japan International Cooperation Agency (JICA), the ADB, IDA, and the IMF. After 2016, PPG debt stabilized around 45-48 percent of GDP, as the initial policy responses to the COVID-19 pandemic and natural disasters in 2020 and 2021 were primarily financed by revenues from the Economic Citizenship Program (ECP)[3] and grants from donors. ECP revenues also enabled Vanuatu to not opt into the Debt Service Suspension Initiative. Vanuatu's debt obligations are largely external, with external debt accounting for 78 percent of total PPG debt as of end-2022. China Eximbank is the largest creditor, accounting for 30 percent of total PPG debt.

Stock of Public and Publicly Guaranteed Debt at End-2022

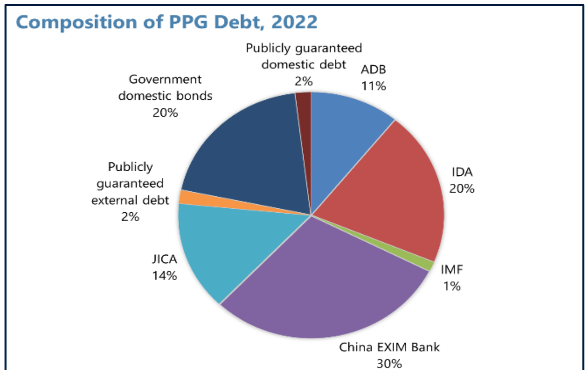
	Vatu mn	USD mn	% of total debt
Total public debt	53,009	462	100
External	41,490	361	78
Multilateral	17,212	150	32
ADB	5,748	50	11
IDA	10,815	94	20
IMF	649	6	1
Bilateral	23,360	204	44
China EXIM Bank	15,724	137	30
JICA	7,636	67	14
Others	0	0	0
Publicly guaranteed debt	918	8	2
Domestic	11,518	100	22
Government bonds	10,508	92	20
RBV	3,319	29	6
VNPF	4,600	40	9
Commercial banks & other	2,590	23	5
Publicly guaranteed debt	1,010	9	2

Source: Vanuatu authorities and IMF staff estimates.

[3] Since 2017, the ECP offers passports in return for investment. The ECP consists of the Vanuatu Development Support Program (VDSP) and the Vanuatu Contribution Program (VCP). These schemes offer "honorary citizenship" that includes most ni-Vanuatu rights except voting and political involvement, in exchange for a one-time contribution. Application costs range from USD 135,000 for a single applicant (of which the government's share is USD 80,000), to USD 185,000 for a family of four (of which the government's share is USD 130,000). See also Appendix II of the Staff Report for the 2021 Article IV Consultation.



Sources: Vanuatu authorities, and IMF staff estimates



Sources: Vanuatu authorities; and IMF staff estimates.

4. **The authorities have been making early repayments on external loans since 2018.** Supported by stronger-than-expected revenues from the ECP, the authorities prepaid VUV 2 billion (1.6 percent of GDP) in 2021, primarily on less concessional loans from China Eximbank. Despite a significant weakening of fiscal prospects, early repayments continued in 2022, when VUV 687 million (0.5 percent of GDP) were paid in advance on a concessional JICA loan.

5. **Currently, Vanuatu's domestic debt market is shallow and underdeveloped, with excessive dependence on a few investors.** Public domestic debt, in the form of central government bonds, is largely held by the Vanuatu National Provident Fund (VNPF), the Reserve Bank of Vanuatu (RBV), and commercial banks (including publicly owned NBV). Government-guaranteed SOE debt accounts for just 1.9 percent of total PPG debt.[4] In the absence of significant revenue mobilization efforts, elevated fiscal deficits will require Vanuatu to increasingly rely on domestic issuance over the long term (especially after 2027), putting pressure on these markets. Domestic debt is projected to rise gradually from 10 percent of GDP in 2022 to 15 percent of GDP by 2030, and then to surge to 40 percent of GDP by 2043. While recent bond issuances have been over-subscribed, signaling some scope to expand domestic issuance going forward, expanding domestic debt at this rapid pace would likely imply large-scale monetary financing, with significant repercussion (see accompanying Staff Report).

6. **A new Debt Management Strategy (DMS) which preserves the prudent approach of previous strategies is needed.** The previous DMS expired at end-2022; the authorities have been preparing a new DMS, and have received Fund TA support in this regard, but have not yet finalized the strategy. The new DMS should continue to require all new external borrowing be concessional (with a 35 percent grant element), and should also continue to encourage the development of domestic debt markets. Given the deterioration in medium-term fiscal prospects and Vanuatu's high exposure to risks, the new DMS should limit prepayments of external debt and instead focus on strengthening cash buffers if revenues exceed expectations. The new DMS should be aligned with a new medium-term fiscal strategy, and should be based on realistic fiscal assumptions. As part of the Sustainable Development Finance Policy (SDFP), Vanuatu satisfactorily implemented the FY21 and FY22 Performance and Policy Actions (PPAs) to improve fiscal sustainability and reduce debt vulnerabilities. As an FY23 PPA, the country committed to adhere to a zero non-concessional borrowing ceiling, in line with domestic legal requirements.

[4] This reflects the current outstanding amount reported by the authorities.

BACKGROUND ON MACROECONOMIC FORECASTS

7. Growth is back with the reopening of borders and expansionary fiscal policies. In 2022, targeted assistance via the second and third phases of the Economic Stimulus Package supported demand prior to the reopening of borders. Domestically financed capital expenditure also increased substantially. Domestic restrictions were lifted in June, and international borders reopened in July, with tourism returning gradually (though tax revenues remained below target). Revenues from the ECP declined significantly after the EU and Switzerland suspended in 2022 visa waiver agreements for Vanuatu passports issued after May 2015. Consequently, for 2022, growth is projected at 1.9 percent, and a fiscal deficit of 6.6 percent of GDP is estimated based on preliminary data, a massive deterioration from a surplus of 2.3 percent of GDP in 2021. The current account is estimated to have turned to a deficit of 2.2 percent of GDP, from a surplus of 0.8 percent of GDP in 2021, on the back of higher import costs.

8. The assumptions in the baseline scenario are consistent with the macroeconomic framework. The main assumptions are:

- ***Real GDP growth*** over 2023–33 is projected to average 2.9 percent.[5] Donor-funded infrastructure projects will pick up speed in 2023 and 2024 after the return of international experts and the easing of supply chain bottlenecks, with construction boosting growth in the near term. The gradual return of tourism—which will only reach pre-pandemic levels in 2025—will also support growth; average growth during the recovery period (2023–25) is projected at 3.7 percent.

- ***Inflation*** (measured by the GDP deflator) is projected to average 3.0 percent (in U.S. dollar terms, the relevant measure for external debt), and 3.1 percent (in domestic currency terms, the relevant measure for public debt) over 2023–33. This is consistent with CPI inflation, which peaked in 2022 due to the global conjuncture, and is projected to decline gradually in 2023 and 2024 and stabilize over the medium-term within the RBV's target range of 0 to 4 percent.

- **The *non-interest current account*** is projected to deteriorate slightly to a surplus of 1.5 percent of GDP on average over 2023–33 relative to the historical average surplus of 3.2 percent. The non-interest current account was in slight deficit in 2022 (1.8 percent of GDP) due to high import costs, high import content for infrastructure projects, and depressed travel receipts. However, over the medium term, travel receipts are expected to gradually recover, remittances are expected to strengthen, and commodity prices are likely to moderate, reducing the deficit.

- ***Foreign direct investment inflows*** are expected to average 3.7 percent of GDP over 2023–33, below the historical average of 4.2 percent (the latter reflecting the post TC Pam investment boom). FDI remains key for Vanuatu's growth and economic diversification.

- **The *primary deficit*** is expected to average 4.9 percent of GDP over 2023–33, a substantial deterioration from the historical average surplus of 0.1 percent of GDP. The projection reflects a

[5] Growth between 2013–2022 was 1.9 percent, including the severe economic downturn in 2020.

rapid decline and lasting weakness in ECP revenues, a medium-term slowdown in grants (see below), the persistence of the increase in current expenditures in recent years (particularly the wage bill), and elevated infrastructure spending needs going forward, given Vanuatu's vulnerability to climate change and natural disasters.

- ***External borrowing and grants*** will continue at elevated levels in the medium term, reflecting commitments from multilateral and bilateral partners. External borrowing for infrastructure projects will accelerate significantly in 2023 and 2024, as the return of external experts and easing of supply chains blockages facilitates the restart of delayed projects. All new external borrowing is assumed to be at concessional terms, consistent with Vanuatu's debt management strategy (including new loans from China and other bilateral partners, which are all expected to contain a grant element of 35 percent). Grants are expected to average 9.0 percent of GDP over 2023–33, down slightly down from 10.6 percent of GDP over the last decade. Grant financing peaked in 2021, on the back of elevated pandemic-related in-kind aid. It is expected to increase in 2023 (reflecting the receipt of delayed grants from 2022), but decline gradually over the medium term, as in-kind aid is scaled back and the 'glut' of available grant financing linked to delayed projects is eventually absorbed. Grant support from multilateral partners (IDA and the ADB) is nonetheless expected to remain robust over the medium-term. Over the long-term, grant financing for infrastructure projects will gradually decline as the economy grows, and the composition of external financing will shift towards concessional lending. Domestic financing is expected to increase significantly over the long term, given persistent fiscal deficits and the limited pool of external resources.

- ***Government-guaranteed debt*** is forecast to remain stable at 2022 levels for the entire projection period. In the baseline, staff assumes that the government will not provide any guarantees for any new borrowing by SOEs, including Air Vanuatu. However, significant fiscal risks related to Air Vanuatu are assessed as part of the contingent liabilities shock.

- **The effects of natural disasters and climate change** over the longer term are incorporated into the baseline scenario. The years 2023–27 are assumed to be free from major costly disasters to simplify the policy discussion of the near-term outlook—a standard practice in DSAs for other small states with a similar risk profile. However, from 2027 onwards, the baseline macro framework incorporates the average long-term effects of natural disasters and climate change. Based on empirical evidence on the impact of natural disasters, real GDP growth is lowered by 0.5 percentage points annually, the current account deficit is raised by 1.3 percentage points of GDP and the fiscal deficit is increased by 0.35 percentage points of GDP relative to disaster-free projections.

9. Major differences in assumptions between the previous DSA and the current DSA reflect higher inflation and a worsening of the fiscal balance. Relative to the 2021 DSA, the current DSA assumes: (i) higher inflation in the near term, reflecting a gradual pass-through of elevated global commodity prices; (ii) higher revenues and grants, reflecting additional donor commitments and a stronger projected recovery in VAT revenues;[6] (iii) higher primary expenditures, reflecting the persistent increase in the wage bill, a lack of significant expenditure rationalization plans, and additional commitments by donors for infrastructure project lending; and (iv) higher import costs, reflecting elevated global commodity prices and higher infrastructure spending.

DSA Key Macroeconomic and Fiscal Assumptions

	Previous DSA		Current DSA		(current vs previous)	
	2023-28	2023-33	2023-28	2023-33	2023-28	2023-33
Real GDP growth, percent	3.0	2.8	3.2	2.9	0.2	0.1
Inflation (GDP deflator), percent	2.2	2.2	3.2	3.1	1.0	1.0
Nominal GDP (Millions of $US Doll	1284.6	1455.2	1255.5	1462.9	-29.1	7.7
Revenue and grants	30.9	30.2	34.9	33.9	3.9	3.6
Primary expenditure	33.9	33.1	40.2	38.8	6.3	5.6
Primary balance	-3.0	-2.9	-5.3	-4.9	-2.4	-2.0
Exports of goods and services	30.3	31.5	30.9	31.4	0.6	-0.1
Imports of goods and services	53.7	55.4	61.8	61.7	8.1	6.3
Current account balance	-4.3	-4.2	0.8	1.0	5.1	5.2

10. Realism tools do not flag substantial risks around the forecast (Figure 4)**.** The projected three-year fiscal adjustment (between 2022 and 2025) reflects a sharp increase in the deficit on the back of the loss of ECP revenues and a resumption of large-scale infrastructure projects. Real growth forecasts for 2023 and 2024 are higher than projected growth paths under different fiscal multipliers; growth forecasts reflect: (i) higher expenditures in 2023 relative to 2022 (financed by higher external grants, and thus not affecting the deficit); and (ii) a large growth contribution of externally financed capital spending, which accelerate significantly over these years.[7] The realism of projections for public and private investment rates and their contribution to real GDP could not be assessed due to data availability constraints.

11. No significant change in external debt drivers is projected. The current account is not projected to be nearly as strong a mitigator for external debt growth as in the previous five years, due to the higher import bill in the near term. Growth is expected to play a slightly larger role in containing external debt increases than in the previous five years, when growth was suppressed by the pandemic. While a primary fiscal surplus over the past five years—driven by high ECP revenues—helped mitigate public debt growth, the widening primary deficit is expected to be a significant driver of public debt growth over the next five years.[8] Over 2018–2021, the use of part of the primary surplus to accumulate cash buffers instead of paying down debt can be seen as a 'residual' driver of debt; this practice is not expected to continue, given the worsening of the fiscal outlook.

[6] VAT revenues are now projected to gradually recover to pre-pandemic levels on the back of the return of tourism, while previous assumptions were more conservative.

[7] Externally financed capital spending is related to large-scale infrastructure projects, the implementation of which is expected to have a significant impact on the construction sector.

[8] The large contribution of the residual in historic debt accumulation is mostly associated with the government increasing its holdings of domestic financial assets (cash), taking advantage of elevated revenues from the ECP. Given large fiscal deficits forecast in the medium-term, and the decline in the ECP, it is not expected that the government continue this rapid pace of expansion of cash holdings, and as such the contribution of the residual shrinks in the projection period.

COUNTRY CLASSIFICATION

12. Vanuatu's debt carrying capacity is assessed as medium. The debt carrying capacity determines the applicable thresholds for the PPG external and total public debt sustainability indicators used in the assessment. The composite index (CI) of 2.99 is based on the October 2022 World Economic Outlook (WEO) data. The methodology relies on a composite indicator (CI) based on: (i) information from the 2021 World Bank Country Policy and Institutional Assessment (CPIA) score; (ii) external conditions as captured by world economic growth; and (iii) country-specific factors including import coverage of reserves. Vanuatu's CI score of 2.99 indicates a medium debt carrying capacity, reflecting moderate growth and rising remittances. The CI score is similar to that in the 2021 DSA, which was based on April 2021 WEO data.

Debt Carrying Capacity	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.99	Medium 2.98	Medium 2.95

Applicable thresholds

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

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

SCENARIO STRESS TESTS

13. In addition to the six standardized stress tests, the analysis includes two tailored stress tests. The combined contingent liability stress test is described in paragraph 2 above. Given Vanuatu's vulnerability to natural disasters, a tailored stress test for a natural disaster shock is also conducted. As a small developing natural disaster-prone state, Vanuatu is automatically subject to a natural disaster shock in the DSA. As in the previous DSA, the stress scenario is tailored to reflect small states' experiences with natural disasters, and entails a one-off shock of 10 percentage points to the debt-to-GDP ratio in 2023; real GDP growth and exports are also lowered by 4 and 10 percentage points respectively in the year of the shock.[9]

[9] See "Small States' Resilience to Natural Disasters and Climate Change: Role for the IMF," *IMF Policy Paper December 2016*.

DEBT SUSTAINABILITY

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

14. Under the baseline scenario, there are no breaches in any debt stock or liquidity indicators vis-à-vis indicative thresholds (Figure 1 and Table 1). The PV of PPG external debt-to-GDP ratio is expected to increase gradually from 22.6 percent in 2023 to 32.5 percent in 2033, due to new loan disbursements for key infrastructure projects. As exports continue increasing during the recovery, the PV of debt-to-exports and the debt service-to-exports ratios drop slightly in the near term, before increasing and stabilizing respectively in the medium-term. The two liquidity indicators remain well below their thresholds over the medium and long term, reflecting the concessional nature of external debt.

15. The stress tests suggest external debt dynamics are somewhat robust to contingent liabilities, natural disasters, and macroeconomic shocks. The combined macroeconomic and export shocks have the largest impact on external debt dynamics, resulting in the PV of debt-to-GDP and the PV of debt-to-exports respectively breaching thresholds from 2025 onwards, indicating a need for the authorities to strengthen fiscal buffers. The tailored natural disaster shock would elevate the PV of debt-to-GDP ratio above its threshold starting in 2032. No shocks would cause a breach of liquidity indicators, suggesting Vanuatu's external debt service capacity is strong, consistent with the concessional nature of donor financing.

16. A severe downside scenario reflecting a complete loss of ECP revenues is applied to both external and public debt sustainability analyses. ECP revenues accounted for one third of total revenues in 2021, but have come under stress after the suspension of the EU visa waiver agreement. While a sharp deterioration in ECP revenues is already included in the baseline macroframework forecast, the shock scenario assumes a complete loss of ECP revenues from 2024 onward to capture the tail risk of a sudden stop in demand. Three quarters of lost ECP revenues are projected to be replaced by non-concessional external financing, with the remaining quarter by local debt issuance; this assumption is more conservative than in the 2021 DSA, where new external debt issued under this scenario was assumed to be at concessional terms.

17. The severe downside scenario of a full loss of ECP revenues would lead to a significant deterioration in external debt sustainability (Figure 1 and Table 3). In this scenario, three indicators would breach their thresholds over the projection horizon: the PV of debt-to-GDP in 2027, the PV of debt-to-exports in 2032, and the debt service-to-revenue ratio in 2033. The vulnerability of Vanuatu's debt sustainability to a complete loss of ECP revenues underscores the need for formulating a robust medium-term fiscal strategy to reduce the reliance on the ECP and identify alternative and more sustainable revenue sources.

PUBLIC SECTOR DEBT SUSTAINABILITY ANALYSIS

18. The projected evolution of the public debt burden under the baseline and stress scenarios suggests heightened vulnerabilities. Given large primary deficits, the PPG debt-to-GDP ratio is expected to rise from 46.6 percent in 2022 to 75.1 percent of GDP in 2032, breaching the authorities' fiscal anchor (to keep PPG debt-to-GDP below 60 percent) in 2027 (Table 2 and Figure 3). The PV of PPG debt-to-GDP ratio does not breach the 55 percent benchmark under the baseline scenario but is projected to follow an upward trajectory and reach 52.9 by 2033 (Figure 2 and Table 2). The PV of debt-to-revenue ratio is also projected to rise under the baseline scenario; the debt service-to-revenue ratio is projected to rise steeply on the back of rising interest costs from domestic debt and declining ECP revenues.

19. Stress tests indicate that a shock to growth has the largest impact on public debt dynamics. This shock causes a breach of the PV of PPG debt-to-GDP benchmark from 2028 onward; it assumes a negative growth rate in 2024 and 2025, contrary to the economic rebound currently projected, highlighting the importance of entrenching the recovery. Public debt is also highly vulnerable to a severe downside scenario with a full loss of ECP revenue (Figure 2 and Table 4). In this scenario, PV of PPG debt-to-GDP ratio would also breach the threshold of 55 percent in 2028.

RISK RATING AND VULNERABILITIES

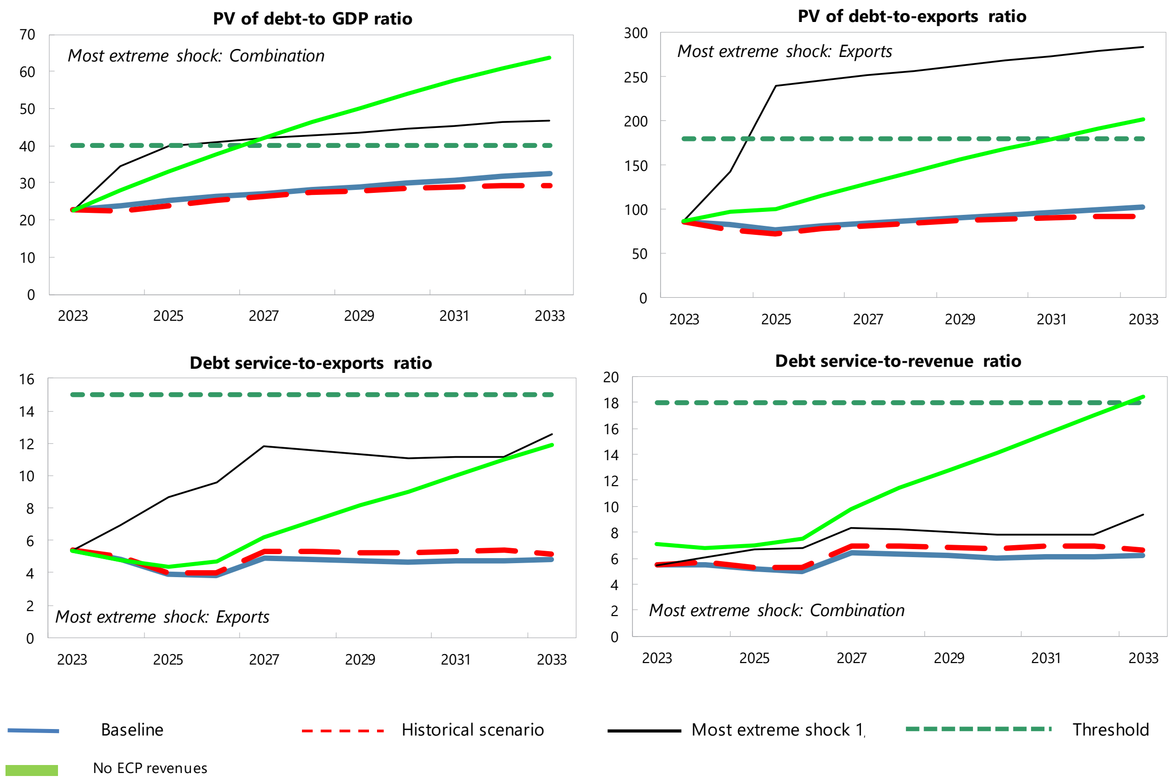
20. Vanuatu's risk of external debt distress remains moderate. Under the baseline, both debt stock and liquidity indicators remain below their benchmark levels for countries with medium debt carrying capacity. Stress tests indicate that broad-based macroeconomic shocks could increase debt substantially, signaling a need to build additional buffers and create fiscal space. However, under most stress scenarios, the external debt service burden would remain contained, indicating that Vanuatu is not expected to face challenges repaying external liabilities. Under the extreme downside scenario of a total loss of ECP revenues, stock and liquidity indicators would both rise rapidly, and most indicators would breach their thresholds. Going forward, Vanuatu's debt strategy should aim for a close-to-even external financing mix between grants and loans, and should also continue to restrict external borrowing to loans at concessional terms (greater than 35 percent grant element), in order to preserve a low debt service burden. Vulnerability to various shocks also underscores the importance of proper supervision and oversight of SOEs, and of enhancing resilience against natural disasters.

21. The overall risk of debt distress is moderate. Even though the 55 percent benchmark for the PV of PPG debt-to-GDP would not be breached under the baseline scenario, public debt and debt service costs are on a steep upward path. Under the severe downside scenario of a total loss of ECP revenues, as well as under a shock to growth, the PV of PPG debt-to-GDP ratio would breach its benchmark. The granularity assessment from the moderate risk tool indicates that Vanuatu has limited space to absorb shocks (Figure 5).

22. Under current policies, authorities' fiscal anchor, aimed at keeping PPG debt under 60 percent of GDP, will be breached in 2027, and increased reliance on domestic issuance will raise interest costs over the long term. Accelerated development of domestic debt markets and a credible medium-term fiscal strategy securing adequate consolidation via revenue mobilization and expenditure rationalization measures are critical to preserve public debt sustainability, respect fiscal anchors, and protect growth-critical infrastructure spending. Diversifying external financing sources by seeking out concessional financing from new development partners could also help Vanuatu avoid reliance on more costly domestic issuance and thus contain total debt service costs.[10]

[10] The Debt Management Office has been working on establishing contacts with various development and agricultural funds in order to attract new sources of financing.

Figure 1. Vanuatu: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2022–2032



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	8	8

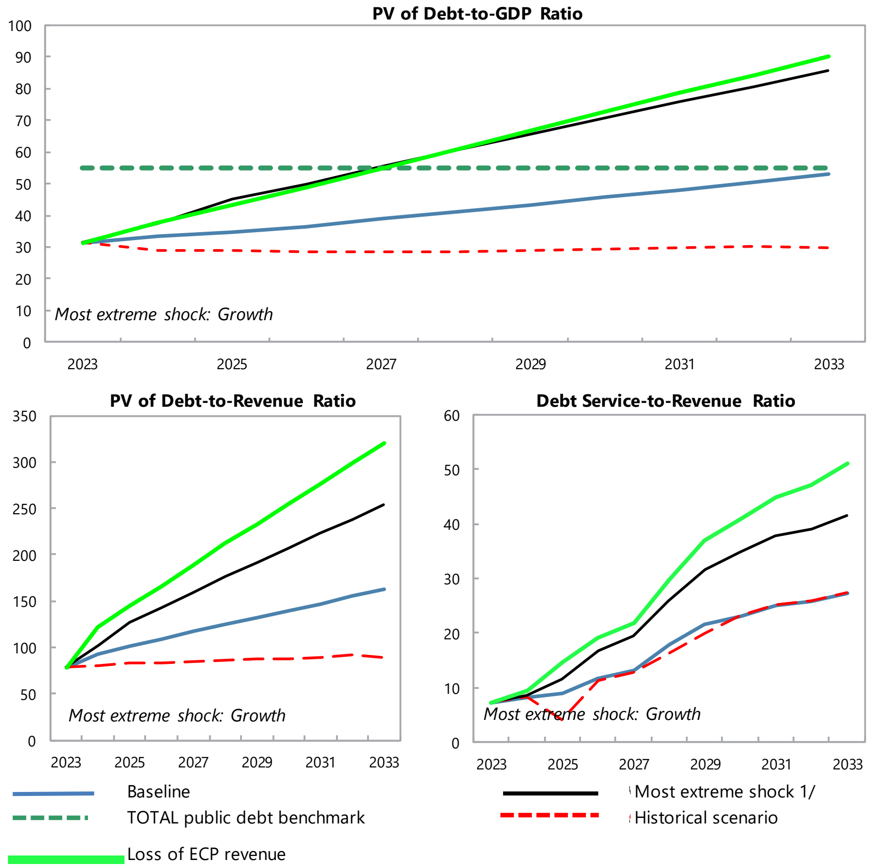
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Vanuatu: Indicators of Public Debt under Alternative Scenarios, 2022–2032



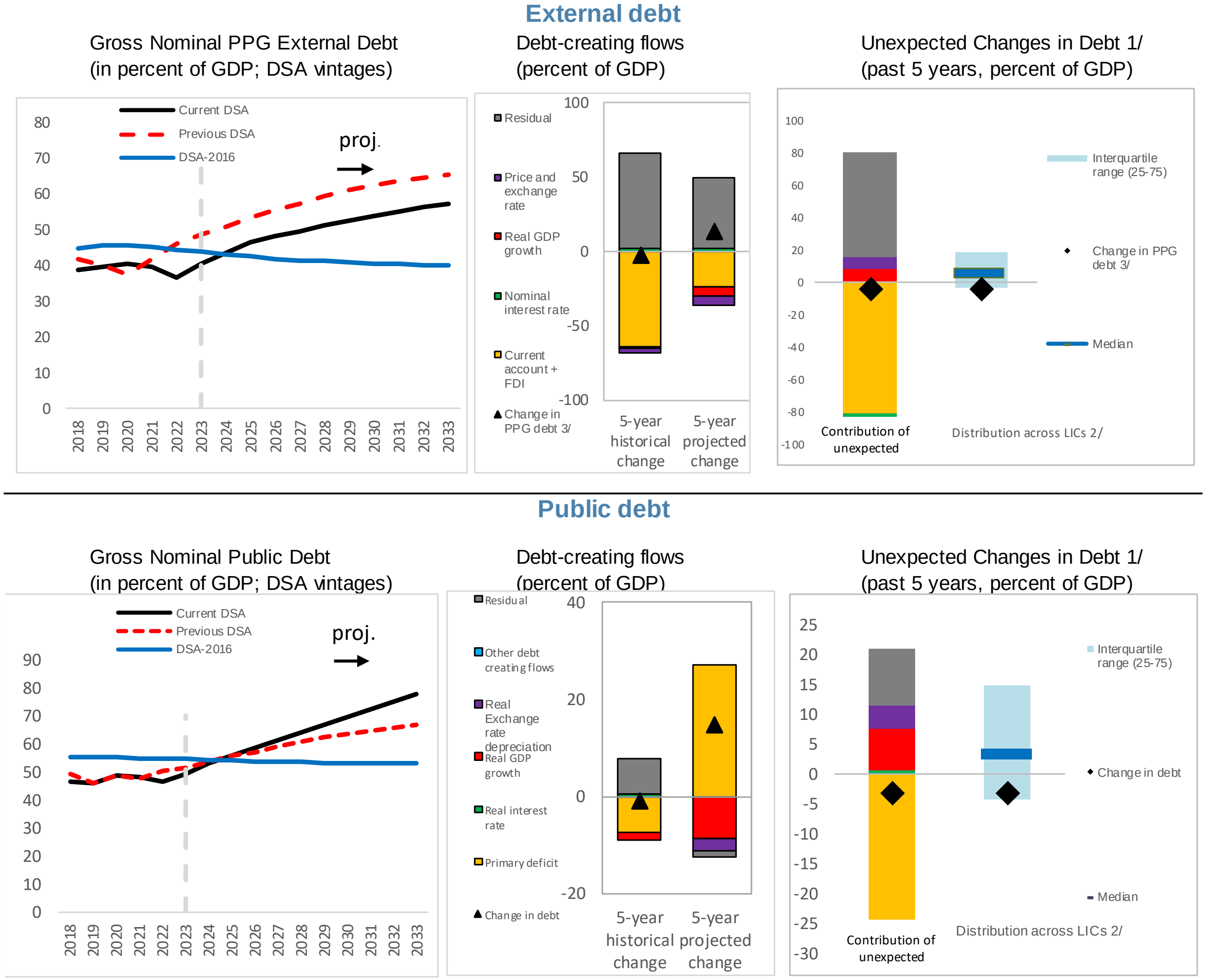
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	56%	56%
Domestic medium and long-term	19%	19%
Domestic short-term	25%	25%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.4%	5.4%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	1.1%	1.1%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



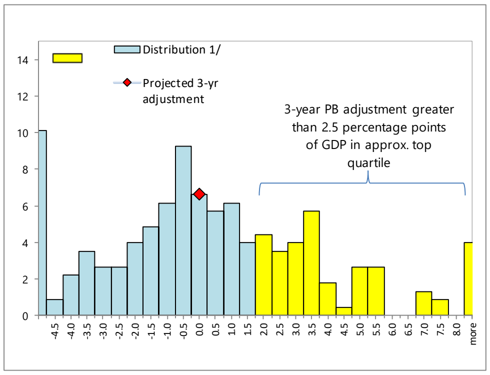
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

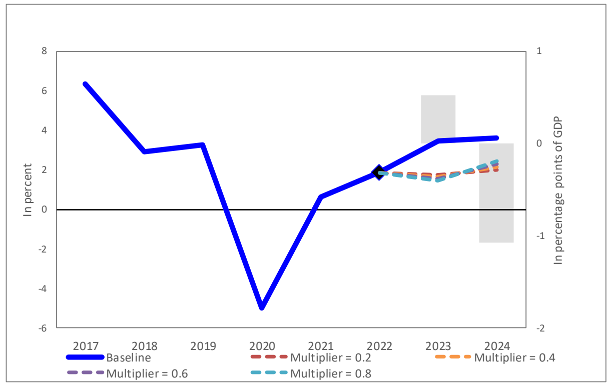
Figure 4. Vanuatu: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



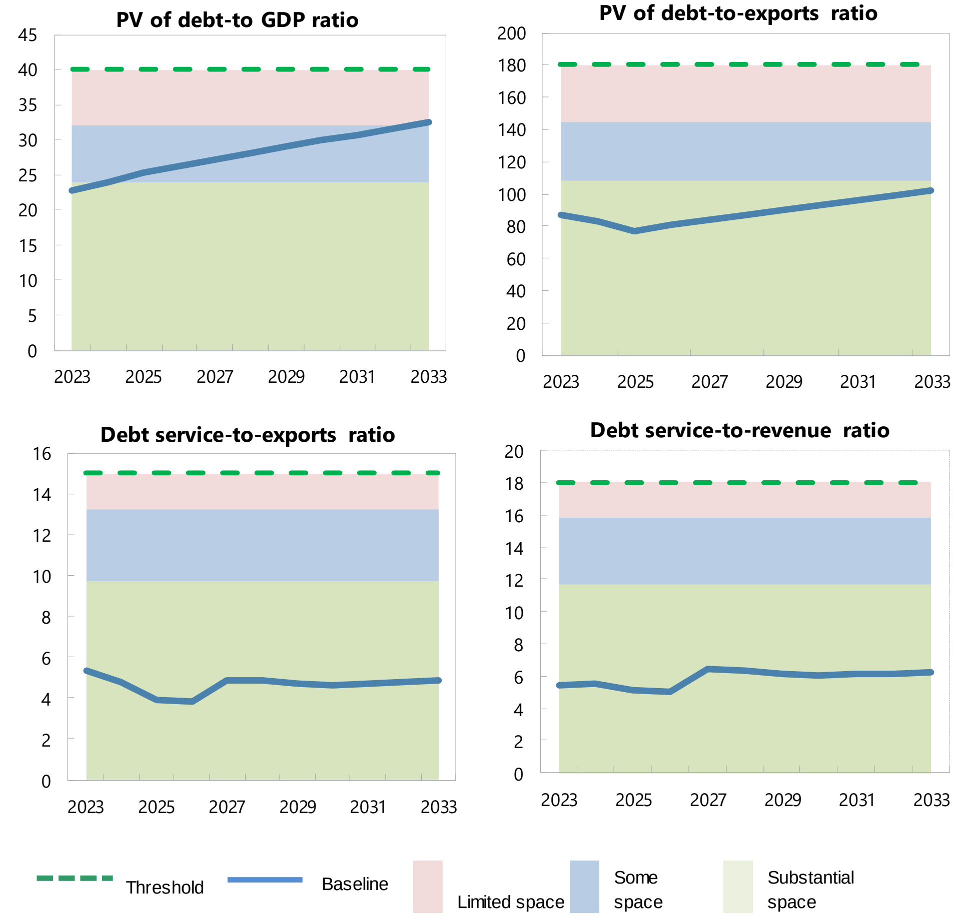
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Figure 5. Vanuatu: Classification of the Moderate Category, 2022–2032[1/]



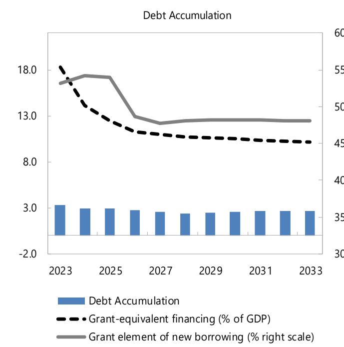
Sources: Country authorities; and staff estimates and projections.

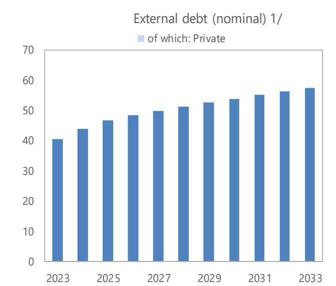
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 1. Vanuatu: External Debt Sustainability Framework, Baseline Scenario, 2019–2042
(in percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	40.4	39.8	36.5	40.5	43.7	46.5	48.3	49.7	51.1	52.4	53.8	55.0	56.3	57.4	62.5	32.6	50.4
of which: public and publicly guaranteed (PPG)	40.4	39.8	36.5	40.5	43.7	46.5	48.3	49.7	51.1	52.4	53.8	55.0	56.3	57.4	62.5	32.6	50.4
Change in external debt	0.5	-0.6	-3.3	4.0	3.3	2.8	1.8	1.5	1.4	1.3	1.3	1.3	1.2	1.1	-0.4		
Identified net debt-creating flows	-13.5	-2.3	-4.2	-1.3	-3.9	-7.6	-7.8	-7.4	-7.1	-6.7	-6.4	-5.9	-5.8	-5.7	-4.7	-8.0	-6.0
Non-interest current account deficit	-8.4	-1.3	1.8	3.2	0.8	-2.7	-3.1	-2.8	-2.8	-2.5	-2.1	-1.7	-1.6	-1.5	-0.7	-3.2	-1.5
Deficit in balance of goods and services	31.6	42.1	39.2	39.2	33.0	28.9	28.1	28.1	28.2	28.7	29.1	29.5	29.9	30.4	35.2	20.7	30.3
Exports	15.7	9.2	15.2	26.2	28.9	32.9	32.6	32.4	32.3	32.1	32.0	31.9	31.8	31.7	24.7		
Imports	47.3	51.3	54.4	65.4	61.9	61.9	60.8	60.6	60.5	60.8	61.1	61.4	61.8	62.1	59.9		
Net current transfers (negative = inflow)	-28.1	-28.8	-22.1	-21.1	-18.1	-17.7	-17.3	-17.0	-17.0	-17.0	-17.0	-17.0	-16.9	-16.8	0.0	-15.7	-17.5
of which: official	-21.3	-24.0	-16.4	-15.4	-12.4	-12.0	-11.6	-11.3	-11.3	-11.3	-11.3	-11.2	-11.2	-11.1	0.0		
Other current account flows (negative = net inflow)	-11.9	-14.6	-15.3	-14.9	-14.1	-13.9	-13.9	-13.9	-14.0	-14.1	-14.2	-14.3	-14.7	-15.1	-35.9	-8.2	-14.3
Net FDI (negative = inflow)	-2.5	-4.3	-4.0	-3.7	-3.7	-3.8	-3.9	-3.8	-3.7	-3.6	-3.6	-3.6	-3.5	-3.4	-2.7	-4.2	-3.7
Endogenous debt dynamics 2/	-2.6	3.3	-2.0	-0.8	-0.9	-1.1	-0.9	-0.8	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-1.3		
Contribution from nominal interest rate	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7		
Contribution from real GDP growth	1.8	-0.3	-0.7	-1.2	-1.4	-1.6	-1.4	-1.3	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-2.0		
Contribution from price and exchange rate changes	-4.9	3.1	-1.7	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	14.0	1.7	0.9	5.2	7.2	10.4	9.6	8.9	8.5	8.1	7.7	7.2	7.0	6.8	4.3	10.3	7.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	20.8	22.6	24.0	25.2	26.3	27.2	28.0	28.9	29.8	30.7	31.6	32.5	36.5		
PV of PPG external debt-to-exports ratio	...	...	136.3	86.5	83.0	76.4	80.6	83.8	86.8	89.9	93.0	96.1	99.3	102.3	148.0		
PPG debt service-to-exports ratio	19.2	42.2	13.9	5.4	4.8	3.9	3.8	4.9	4.8	4.7	4.6	4.7	4.8	4.8	7.7		
PPG debt service-to-revenue ratio	10.1	13.0	8.4	5.5	5.5	5.1	5.0	6.4	6.3	6.2	6.0	6.1	6.1	6.2	7.8		
Gross external financing need (Million of U.S. dollars)	-79.5	-16.7	-1.2	9.9	-17.8	-63.4	-73.5	-68.4	-71.3	-69.9	-68.7	-64.3	-65.2	-65.2	-51.2		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	-5.0	0.6	1.9	3.5	3.6	3.9	3.1	3.0	2.5	2.5	2.5	2.5	2.5	2.5	3.4	1.9	2.9
GDP deflator in US dollar terms (change in percent)	14.1	-7.2	4.4	2.7	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.6	1.4	3.0
Effective interest rate (percent) 4/	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.1
Growth of exports of G&S (US dollar terms, in percent)	-57.3	-45.5	76.9	82.5	17.9	22.0	5.3	5.4	5.2	5.2	5.3	5.3	5.3	5.3	-14.9	-2.3	15.0
Growth of imports of G&S (US dollar terms, in percent)	-1.9	1.4	12.8	27.6	1.1	7.1	4.4	5.7	5.5	6.2	6.1	6.1	6.1	6.2	-2.1	3.6	7.5
Grant element of new public sector borrowing (in percent)	...	...	...	53.1	54.2	54.0	48.7	47.8	48.1	48.1	48.2	48.1	48.1	48.1	48.1	...	49.7
Government revenues (excluding grants, in percent of GDP)	29.9	29.8	25.1	25.7	25.2	25.1	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.4	25.5	24.9
Aid flows (in Million of US dollars) 5/	116.0	149.9	129.5	213.7	187.5	178.9	166.0	169.1	173.8	182.4	191.0	199.6	208.7	218.8	265.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	18.3	14.1	12.5	11.3	11.0	10.7	10.6	10.5	10.4	10.3	10.2	6.8	...	11.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	83.9	82.0	80.6	80.7	79.8	80.4	80.3	80.1	79.9	79.7	79.5	73.6	...	80.6
Nominal GDP (Million of US dollars)	1,008	942	1,001	1,064	1,137	1,217	1,293	1,372	1,449	1,530	1,616	1,707	1,802	1,903	3,331		
Nominal dollar GDP growth	8.4	-6.6	6.4	6.3	6.8	7.1	6.3	6.1	5.6	5.6	5.6	5.6	5.6	5.6	7.1	3.3	6.0
Memorandum items:																	
PV of external debt 7/	...	...	20.8	22.6	24.0	25.2	26.3	27.2	28.0	28.9	29.8	30.7	31.6	32.5	36.5		
In percent of exports	...	...	136.3	86.5	83.0	76.4	80.6	83.8	86.8	89.9	93.0	96.1	99.3	102.3	148.0		
Total external debt service-to-exports ratio	19.2	42.2	13.9	5.4	4.8	3.9	3.8	4.9	4.8	4.7	4.6	4.7	4.8	4.8	7.7		
PV of PPG external debt (in Million of US dollars)			208.0	240.9	272.6	306.4	340.0	372.7	406.0	442.2	481.8	524.1	569.6	617.9	1217.4		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	3.0	3.0	2.8	2.5	2.4	2.5	2.6	2.6	2.7	2.7	2.4		
Non-interest current account deficit that stabilizes debt ratio	-8.9	-0.7	5.1	-0.7	-2.5	-5.5	-4.8	-4.3	-4.2	-3.8	-3.5	-3.0	-2.9	-2.7	-0.3		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

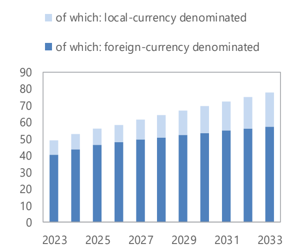
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

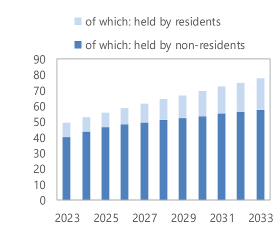
Table 2. Vanuatu: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042
(in percent of GDP, unless otherwise indicated)

	Actual			Projections													Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043		Historical	Projections
Public sector debt 1/	48.9	48.4	46.6	49.2	53.1	56.1	58.5	61.4	64.3	66.9	69.6	72.4	75.1	77.8	98.8		**40.9**	**64.0**
of which: external debt	40.4	39.8	36.5	40.5	43.7	46.5	48.3	49.7	51.1	52.4	53.8	55.0	56.3	57.4	57.8		**32.6**	**50.4**
			10.13												41.01			
Change in public sector debt	3.0	-0.5	-1.8	2.6	3.8	3.1	2.4	2.9	2.8	2.6	2.8	2.8	2.7	2.7	-3.2			
Identified debt-creating flows	0.8	-1.3	4.4	3.5	4.5	3.9	3.2	3.3	3.3	2.8	2.9	3.0	3.0	3.0	-2.5		**-0.7**	**3.3**
Primary deficit	1.1	-3.3	5.7	5.2	6.3	5.9	4.9	5.0	4.8	4.3	4.4	4.5	4.5	4.5	-0.2		**-0.1**	**4.9**
Revenue and grants	41.4	45.7	38.1	40.0	35.7	34.0	33.5	33.2	32.9	32.9	32.8	32.7	32.6	32.5	28.9		**36.1**	**33.9**
of which: grants	11.5	15.9	12.9	14.3	10.5	9.0	8.7	8.5	8.2	8.2	8.1	7.9	7.8	7.8	4.5			
Primary (noninterest) expenditure	42.6	42.5	43.8	45.1	41.9	39.9	38.4	38.2	37.7	37.1	37.2	37.1	37.0	36.9	28.6		**36.0**	**38.8**
Automatic debt dynamics	-0.4	2.0	-1.3	-1.6	-1.7	-2.0	-1.8	-1.7	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-2.3			
Contribution from interest rate/growth differential	2.6	-0.1	-1.1	-1.6	-1.7	-2.0	-1.8	-1.7	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-2.3			
of which: contribution from average real interest rate	0.2	0.2	-0.2	-0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	0.2	0.3	0.3	1.1			
of which: contribution from real GDP growth	2.4	-0.3	-0.9	-1.6	-1.7	-2.0	-1.7	-1.7	-1.5	-1.5	-1.6	-1.7	-1.7	-1.8	-3.3			
Contribution from real exchange rate depreciation	-3.0	2.1	-0.3	...	...	...	...	...	...	...	...	...	...	...	...			
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Residual	2.2	0.8	-6.1	-0.9	-0.7	-0.8	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	-0.3	-0.3	-0.6		**3.5**	**-0.5**
Sustainability indicators																		
PV of public debt-to-GDP ratio 2/	...	...	31.1	31.4	33.3	34.8	36.5	38.8	41.2	43.3	45.6	48.0	50.4	52.9	75.3			
PV of public debt-to-revenue and grants ratio	...	...	81.8	78.6	93.3	102.1	109.2	117.1	125.0	131.8	139.3	147.1	154.9	162.9	260.8			
Debt service-to-revenue and grants ratio 3/	11.5	11.5	9.4	7.3	8.1	9.0	11.6	13.2	18.0	21.6	23.2	25.1	25.7	27.4	51.8			
Gross financing need 4/	5.9	2.0	9.3	8.1	9.2	8.9	8.8	9.4	10.7	11.4	12.0	12.7	12.8	13.4	14.7			
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	-5.0	0.6	1.9	3.5	3.6	3.9	3.1	3.0	2.5	2.5	2.5	2.5	2.5	2.5	3.4		**1.9**	**2.9**
Average nominal interest rate on external debt (in percent)	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2		**1.4**	**1.1**
Average real interest rate on domestic debt (in percent)	3.2	5.5	1.3	2.4	3.8	3.7	3.8	3.7	3.8	3.7	4.0	4.1	4.3	4.4	4.1		**3.3**	**3.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.1	5.4	-0.7	...	...	...	...	...	...	...	...	...	...	...	...		**0.5**	**...**
Inflation rate (GDP deflator, in percent)	2.8	0.7	4.9	3.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	4.1		**3.2**	**3.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	3.8	0.5	4.9	6.7	-3.7	-1.1	-0.9	2.4	1.2	1.0	2.7	2.2	2.2	2.2	-18.5		**11.1**	**1.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.9	-2.8	7.5	2.6	2.4	2.8	2.5	2.1	1.9	1.7	1.7	1.7	1.7	1.7	2.9		**0.9**	**2.1**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Vanuatu: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022-2032
(in percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	23	24	25	26	27	28	29	30	31	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	23	22	24	25	26	27	28	29	29	29	29
A2. Alternative Scenario: [Loss of ECP revenues]	23	28	33	38	**42**	**46**	**50**	**54**	**57**	**61**	**64**
B. Bound Tests											
B1. Real GDP growth	23	26	29	31	32	33	34	35	36	37	38
B2. Primary balance	23	25	28	30	31	32	33	34	35	36	36
B3. Exports	23	30	**41**	**42**	**42**	**43**	**44**	**45**	**45**	**46**	**47**
B4. Other flows 3/	23	31	39	**40**	**41**	**41**	**42**	**43**	**43**	**44**	**44**
B5. Depreciation	23	30	26	28	29	30	31	33	34	35	36
B6. Combination of B1-B5	23	34	**40**	**41**	**42**	**43**	**44**	**45**	**45**	**46**	**47**
C. Tailored Tests											
C1. Combined contingent liabilities	23	28	30	31	32	33	35	36	37	38	39
C2. Natural disaster	23	28	30	32	33	35	37	38	39	**41**	**42**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	86	83	76	81	84	87	90	93	96	99	102
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	86	77	72	78	81	84	87	89	90	91	92
A2. Alternative Scenario: [Loss of ECP revenues]	86	97	100	115	130	143	156	168	180	**191**	**201**
B. Bound Tests											
B1. Real GDP growth	86	83	76	81	84	87	90	93	96	99	102
B2. Primary balance	86	87	85	91	94	98	102	105	109	112	115
B3. Exports	86	143	**239**	**247**	**252**	**257**	**263**	**268**	**274**	**279**	**283**
B4. Other flows 3/	86	108	119	123	125	128	130	133	136	138	140
B5. Depreciation	86	83	64	68	71	74	78	81	84	87	91
B6. Combination of B1-B5	86	128	104	150	154	157	161	165	169	173	175
C. Tailored Tests											
C1. Combined contingent liabilities	86	97	91	96	100	104	108	112	115	118	121
C2. Natural disaster	86	102	97	103	108	114	120	125	130	135	140
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	5	5	4	4	5	5	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	5	5	4	4	5	5	5	5	5	5	5
A2. Alternative Scenario: [Loss of ECP revenues]	5	5	4	5	6	7	8	9	10	11	12
B. Bound Tests											
B1. Real GDP growth	5	5	4	4	5	5	5	5	5	5	5
B2. Primary balance	5	5	4	4	5	5	5	5	5	5	5
B3. Exports	5	7	9	10	12	12	11	11	11	11	13
B4. Other flows 3/	5	5	4	5	6	6	6	5	5	5	7
B5. Depreciation	5	5	4	4	5	5	4	4	4	5	5
B6. Combination of B1-B5	5	6	6	6	8	7	7	7	7	7	9
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	4	4	5	5	5	5	5	5	5
C2. Natural disaster	5	5	4	4	6	6	6	6	6	6	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	5	6	5	5	6	6	6	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	5	6	5	5	7	7	7	7	7	7	7
A2. Alternative Scenario: [Loss of ECP revenues]	7	7	7	7	10	11	13	14	16	17	**18**
B. Bound Tests	7	7	7	7	10	11	13	14	16	17	**18**
B1. Real GDP growth	5	6	6	6	8	7	7	7	7	7	7
B2. Primary balance	5	6	5	5	7	7	6	6	6	6	7
B3. Exports	5	6	6	7	8	8	8	7	7	7	8
B4. Other flows 3/	5	6	6	6	8	7	7	7	7	7	8
B5. Depreciation	5	7	6	6	8	7	7	7	7	7	7
B6. Combination of B1-B5	5	6	7	7	8	8	8	8	8	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	5	5	7	7	7	7	7	7	7
C2. Natural disaster	5	6	5	5	7	7	7	7	7	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Vanuatu: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
PV of Debt-to-GDP Ratio											
Baseline	31	33	35	37	39	41	43	46	48	50	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	31	29	29	28	28	29	29	29	30	30	30
A2. Alternative Scenario: [Loss of ECP revenue]	31	38	43	49	55	**61**	**67**	**73**	**78**	**84**	**90**
B. Bound Tests											
B1. Real GDP growth	31	37	45	50	**55**	**61**	**66**	**71**	**76**	**81**	**86**
B2. Primary balance	31	37	41	42	44	47	49	51	53	**55**	**57**
B3. Exports	31	38	48	50	52	54	**56**	**58**	**60**	**62**	**64**
B4. Other flows 3/	31	41	49	50	52	54	**56**	**58**	**61**	**63**	**65**
B5. Depreciation	31	37	36	36	36	37	37	38	38	39	40
B6. Combination of B1-B5	31	35	38	38	41	43	46	48	51	53	**56**
C. Tailored Tests											
C1. Combined contingent liabilities	31	43	44	45	47	49	51	53	**55**	**57**	**60**
C2. Natural disaster	31	43	44	46	49	52	54	**57**	**60**	**63**	**66**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	79	93	102	109	117	125	132	139	147	155	163
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	79	81	84	84	84	86	87	88	90	91	90
A2. Alternative Scenario: [Loss of ECP revenue]	7	9	15	19	22	30	37	41	45	47	51
B. Bound Tests											
B1. Real GDP growth	79	102	127	143	160	177	192	207	223	238	254
B2. Primary balance	79	103	120	127	134	142	148	154	162	169	177
B3. Exports	79	106	141	148	155	163	169	176	184	191	198
B4. Other flows 3/	79	114	143	150	158	165	171	178	186	193	200
B5. Depreciation	79	107	107	109	111	113	115	117	120	123	126
B6. Combination of B1-B5	79	99	110	113	122	131	138	146	154	163	171
C. Tailored Tests											
C1. Combined contingent liabilities	79	121	128	135	143	150	155	162	169	176	184
C2. Natural disaster	79	118	128	137	147	156	164	173	182	192	201
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	7	8	9	12	13	18	22	23	25	26	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	7	8	4	11	13	16	20	23	25	26	27
A2. Alternative Scenario: [Loss of ECP revenue]	7	9	15	19	22	30	37	41	45	47	51
B. Bound Tests											
B1. Real GDP growth	7	9	12	17	20	26	32	35	38	39	42
B2. Primary balance	7	8	13	17	15	20	25	26	27	27	29
B3. Exports	7	8	9	12	14	19	22	24	26	26	29
B4. Other flows 3/	7	8	9	13	14	19	22	24	26	26	29
B5. Depreciation	7	8	10	11	14	18	21	23	25	25	27
B6. Combination of B1-B5	7	8	9	12	14	19	23	25	27	27	29
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	20	15	15	23	27	26	27	27	29
C2. Natural disaster	7	8	18	16	16	24	28	28	30	30	32
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.