1. Statement of Responsibility

This statement of responsibility confirms that 2023 Budget Policy Statement is finalised in line with section 9 and 10 of the Public Finance and Economic Management (PFEM) Act [CAP 244]. It incorporates and outlines the Government's economic and financial policies and priorities to address Covid-19 responses and preparedness, and at the same time enhance economic growth and improve service delivery.

Section 9 requires the Government to:

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

Section 10 requires the Government to:

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

Pursuant to section 9 and 10, this Budget Policy Statement confirms that the Government's economic and fiscal policy objectives, strategic priorities and intentions are consistent with the Principles of Responsible Fiscal Management specified in section 22 of the PFEM ACT [CAP 244]. On this note, the Government will continue to adopt prudent fiscal management through both expenditure and revenue management and at the same time manage state debt to improve service delivery and enhance economic growth.

As the Minister and Director General responsible for deciding and implementing the economic, financial and fiscal policy of the Government, it is our honour to confirm that the 2023 Budget Policy Statement is in line with Sections 9 and 10 of the Public Finance and Economic Management (PFEM) Act [CAP 244].

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

Mr. Letlet August
Director General
Ministry of Finance & Economic Management

2. Economic and Financial Policies

The Government's highest priority in 2023 is to improve economic growth and at the same time improve service delivery and wellbeing of all the people in Vanuatu through the allocation of financial resources to strengthen both the productive and social sectors following Government's seven budget priority outcomes stated in this Budget Policy Statement.

The Government continues to acknowledge its Development partners and will continue to seek financial assistance from its developments partners to allocate financial resources towards seven budget policy priorities in 2023.

This Budget Policy Statement confirms that the Governments economic and financial policy objectives, strategic priorities and intentions are in line with the Principles of Responsible Fiscal Management in Section 22 of the Public Finance and Economic Management (PFEM) Act [CAP 244], which are provided in the box below. These require the Government to pursue its budget policy objectives.

Principles of Responsible Fiscal Management

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

3. Budget Policies

The 2023 Budget policies have been developed in line with the National Sustainable Development Plan and in a way that complies with the legal requirements of the PFEM Act [CAP 244]. The Budget policies, objectives, and targets are crucial in the process of developing and finalising the 2023 Budget.

The 2023 Budget policies consist of:

1. Budget Policy Priorities for 2023;
2. Economic and Fiscal Targets for 2023; and
3. Long Term Economic Policy Objectives

A. Budget Policy Priorities for 2023

The Government Act provides that the Prime Minister (PM) sets strategic policy priorities and planning for the Republic of Vanuatu. That legal mandate allows for the developing of the 2023 Government Policy Priorities for the country. Besides, while the Government Act review will deem to strengthen the determination of policy priorities through the Council of Ministers. The PFEM Act Section 9 further ensures that the financial resources are allocated in line with the policy priorities set by the Government. Vanuatu 2030: The People's Plan- (commonly referred to as the National Sustainable Development Plan remains as the guiding policy document for the government when developing the 2023 policy priorities to achieve the people's vision.

The NSDP is the localization of the Global-Sustainable Development Goals (SDGs) that the Government in collaboration with private sectors and development partners will implement over the 15 years period (with 9 years remaining). The policy priorities represent important sectors of the economy that the Government will support in 2023. The NSDP is set to be reviewed in every 5 years. From 2021 to early 2022, the Department of Strategic Policy Planning and Aid Coordination (DSPPAC) has been going through an extensive exercise to review the NSDP reporting and implementation effectiveness over the past 5 years with consultations held around in the country.

The DSPPAC is finalizing the reviewed Aid Management Policy and the Aid Management Implementation Strategy, with an aim to ensure coordination and the use of official development assistance is aligned with recent changes to legislation governing financial planning as well as the public service's reporting guidelines. The anticipated adjustments to the way coordination is carried will allow development partners and the Government to achieve long term planning goals.

Following Vanuatu's graduation from Least Developed Country (LDC) status in 4th December 2020 into a developing country status, the Government will continue to oversee the effective implementation of the Smooth Transition Strategy (2019) with a 5-year transition period, to address any implications on trade, foreign investment, and international finance. This demands proper coordination and linkages of action points into the plans for different ministries and sub-national governments.

Vanuatu is now experiencing a high increase in fuel prices, which is expected given the current circumstances of war between Ukraine and Russia.

Furthermore, the compound nature of natural disasters and community COVID-19 transmissions intensifies the scale and broadens the scope of the human, social, economic and environmental impacts to the country. The global spread of COVID-19 pandemic presents a potentially catastrophic outlook for both public health and economic output. The lockdown of international and domestic borders has also significant impact to the society.The major economic risks for Vanuatu given the lock-down and restrictions is to suffocate the economy through non-economic activity through movement of goods and people across domestic and international borders. This has the impacts to upset the economy through unemployment, falling and even drying up of receipts, disruption of supply chains and eventually total fall out in economic output (GDP).The Government has announced that borders will be open in 1st of July and is working closely with the Private Sector to ensure a smooth opening of Borders.

Vaccination is also a high priority of the Government, and Government is continuing the rollout programs until May 2022. The Government is also embarking on strengthening health capacity and infrastructure.

This Government, development partners, private sector and NGOs are progressing the implementation of Vanuatu Recovery Strategy 2020 -2023 to recover, rebuild and emerge stronger and more resilient from the catastrophic impacts of Natural Disasters and Covid-19. When Vanuatu closed its international borders in March 2020, the tourism industry and related sub-sector of the economy suffered greatly. In addition to the pandemic, Vanuatu was also struck by Category 5 tropical cyclone Harold in April 2020, and recently a Category 1 TC Dovi in February this year 2022 which causes some damages in the southern part of the country. Like Covid-19, the cyclone's impact on the economy has been extensive with the agriculture sub-sector, normally the economy's backbone, sustain the most substantial damages.

There are sectorial damages and losses implies that there will be substantial funding shortfalls. This of course entails difficult decisions around financing and setting priorities for limited resources available. Subsequently, the Government is considering some New Revenue Initiatives to complement the recovery efforts from Natural Disaster and COVID-19 through the coordination of National Revenue Taskforce.

Therefore, to recover from the inevitable and prolonged socio-economic hardships posed by COVID-19 Transmission and Other Natural Disasters, the Government is taking necessary steps to: (I) keep businesses and private sector afloat whilst; (II) dialoguing with relevant Development Partners to support the preparedness, recovery and smooth transition and opening of border in July; (III) strengthening health infrastructure and capabilities; (IV) refocusing its resources towards boosting the productive and infrastructure sectors; (V) and implementing sustainable recovery priorities while maintaining the service delivery, working under new normal and applying Health Protocols and Procedures.

Apart from the challenges imposed by natural disasters and global factors, land disputes remain a key barrier to promote a wider economic development throughout the islands of Vanuatu. This will trigger an ongoing land sector reforms in order to enhance productive sector development. Coupled with that, the Government will continue to broaden its focus in a way that can leverage on the abundant ocean resources.

Core Policy Priorities Analysis and Justification for support in 2023

The current Government remains committed to public sector reforms to deliver the People's Plan 2030 while promoting capabilities for resilience and prosperity taking into considerations the Covid-19 transmissions, through the following priority outcomes:

Priority Outcome 1: Enhanced business opportunities and investment environment

The recent economic crisis resulting from COVID-19 and exacerbated by Tropical Cyclone Harold highlights the vulnerabilities faced by relying too heavily on any one sector for economic growth, particularly sectors such as tourism.

Similarly, land issues and disputes have been an obstacle for productive investments in the past, thus the current government is embarking on land reform and dealings (acquisition) to boost public investment in 2023. The Government wants to continue to create an enabling environment to encourage more Public Private Partnerships and Joint Ventures with local and foreign investors in order to spread economic development and benefits equitably.

The Government is committed to implement policy options aimed at strengthening Vanuatu's economic resilience and recovery through:

- **Increase primary production and market access** for commodity crops, animal, fish and forest products through increased mechanization, Public Private Partnerships (PPPs), and support to Vanuatu Primary Producers Association (VPPA), Vanuatu Cooperative Business Networks, and improve trade facilitation.
- **Strengthening of the food supply chains** starting from farm production, logistics, to market outlets and to consumers for ensuring food security and nutrition for the population.
- **Improving the management of land** leases and customary land as a catalyst for enhancing economic development and livelihoods of people living in rural areas.

- **Promoting a strong economic diversification** through commodity production and exports**,** establishment of EDZ, FTZ and Ministry of Fisheries, Ocean, and Marine Affairs implement comprehensible revenue initiatives, cooperatives development, and engaged in COVID-19 ready tourist development.

- **Increase Value-addition, infrastructure facilities, Agro-processing and Quality control** to enter a competitive market and expand the capacity for managing biosecurity and border control risks of pest and disease incursion.

- **Expanding the service sector**, such as businesses that serve the productive sector such as the Vanuatu Rural Development Bank (VRDB)

Target Outcomes:

- Improved participation rate of Ni-Vanuatu business in the formal cash economy

- Improved food and nutrition security for every household

- Increase support to VPPA and Indigenous Ni-Vanuatu Agro- Industry Council (INAC)
- Improved Research & Development for productive sectors including support to Vanuatu Agriculture Research and Technical Centre (VARTC)
- Increased production and supply of poultry, fish, meat, and agricultural crops to local market outlets and export markets.
- Increased support to Commodities Subsidy and Root Crops Subsidy
- Increased market access through increased value-addition and agro-processing and quality control
- Reduced backlog of court cases relating to customary land disputes and leases
- Increased support for land compensation and acquisition that promote public investment
- Increase support for Public Private Partnership.
- Increased Vanuatu exports by reducing Technical Barriers to Trade (TBT) to compete in niche markets
- Increased number of local entrepreneurs, registered farmers, fishers, and foresters receiving necessary government support.
- Increased support to the businesses, and cooperative development in rural communities
- Improved access to financial capital for MSMEs through VRBD, Industry Development Fund, and Cooperative Development Fund, and other Banking Facilities.
- Increased support to Businesses and Private Sector.
- Increased earnings and volume of trade due to existing/newly trade agreements.
- Improved private sector investment by both local and foreign investors in the productive sectors.
- Reduced risks and spread of pest and diseases entering Vanuatu including the Coconut Rhinoceros Beetle.
- Vanuatu Sustainable Tourism policy 2019-2030 and Vanuatu Sustainable Tourism Strategy 2021-2023 implemented.
- Strengthened revenue base, develop new revenue initiatives; strengthen tax administration and compliance system.
- Continue to plan and coordinate with relevant stakeholders and businesses/agencies the employment stabilization program to enable the program to assist businesses who have been greatly affected by the COVId19 pandemic.

- Develop and implement a Disaster recovery related development account within the Treasury Department.

- Develop and implement the MTEF and provide capacity building program for other sectors to follow including the MOE, MIPU and the rest of the 13 ministries.

- Developed and strengthened appropriate regulations for trade and commerce
- Improve the timely collection and dissemination of national official data
- Strengthen Customs Border Control Systems to continue to upgrade the Asycuda systems to achieve its operational objectives.

Priority Outcome 2: Improved Resilient Infrastructure

Resilient Infrastructure is a core government priority in 2023. Improved roads, wharves and airports, including energy and telecommunication infrastructure will continue to strengthen connectivity between essential government services, agriculture, value addition, tourism and markets in the future through:

- **Improving airport infrastructure –** by continuing the development of the Code E terminals at Bauer field International Airport, acquiring land for airport development, upgrading major key airfields, sealing the existing air space agreement. Strengthening the regulatory arm of the industry is also required to keep up with operational demand.

- **Rehabilitating and improving maintenance of high priority rural infrastructure –** by partnership with private sectors, development partners and local communities to improve rural (including feeder) roads, upgrading wharves and jetties, building of warehouses, sports and recreational facilities, and completing transport infrastructure maintenance fund strategies.

  Expanding access, and reducing the costs of energy and telecommunication– by promoting alternative sources of energy in rural areas such as solar energy and hydropower, and other renewable sources of energy , improving accessibility and affordability of telecommunication in rural areas.

Target Outcomes:

- Strengthen Health Infrastructure and Capacity in the country to compact the Pandemic Covid-19, and support infrastructure system to enable work from home and virtual meetings, under new normal.
- Continued support to the implementation and completion of large on-going infrastructure projects, including Feeder Road Projects, with required disaster risk informed building standards, including in Disaster Affected Areas.

- Strengthened regulatory arm of the aviation industry including an interactive website where clients can file applications, obtain standard information, and negotiating airspace agreement.

- Improved transport infrastructure facilities, including wharfs, roads and airports to facilitate trade within and between islands; opening and maintaining of rural feeder roads; develop road assets; and implement sustainable public road policy.

- Support capacity development of personnel and Safer Marine approaches through an increased installation of Marine Aids to Navigation (AToN's) network at identified locations, and development of hydrographic surveys, security, management of facilities and the collection of revenues.

- Continued support in domestic shipping services to provide shipping subsidy.

- Increased number of households with access to clean energy and electricity in rural areas, by continuing support and review of the National Green Energy Fund.

- Increased number of households with access to safe water supply infrastructures

- Improved reliable and affordable access to telecommunications by extending the Government Broadband Network to rural areas in order to connect Government services to where is needed, in line with Government's decentralization priorities

Priority Outcome 3: Improved education quality, accessibility and training outcomes for children and young people

The COVID-19 pandemic has affected a lot of school programs over the country. Due to social distancing regulations, the Government has been implementing home learning options. As part of the stimulus package, the Government has also agreed to increase school fee grant across all schools in the country.

In 2023 the Government will continue to strengthen access to and quality of education for boys and girls, equip them with relevant skills and knowledge and continue the development of the national human resource to contribute to the country's economic growth through:

- **Expanding greater access to education –** through accelerating progress made in universal early childhood education and primary education from year 7 to year 12.

- **Improving the quality of education –** through ensuring teachers are paid and trained, reforming the curriculum in line with NSDP, and upgrading school facilities and resources including those affected by the volcanic disasters in Ambae and Ambrym and TC Harold.

- **Increasing higher education opportunities –** through completing revised Vanuatu Education Strategy, implementing National Human Resource Development Plan, supporting life-long learning opportunities within the education system.

- **Improving opportunities for employability and entrepreneurial skills development –** through technical and vocational skills training and increased support for out of school youth.

Target Outcomes:

- Continued Support to tuition Fees subsidy and strengthening home school package.
- Developed and implemented Home Learning Strategies
- Increased student net enrolment ratio for yr7- yr12.
- Improved support for ECCE especially the Government registered centres.
- Improved training of teachers, and learning facilities.
- Improved teaching materials.
- Student-teacher ratio maintained
- Improved numeracy and literacy rate
- Strengthened post-secondary education and training
- Improved support for training programmes through technical and vocational skills development.

Priority Outcome 4: Improved Quality Health Care

The Government will continue to strengthen health services and accelerate progress towards health targets in the NSDP and the SDGs despite the challenges of the current COVID-19 situation, and any notifiable diseases and the losses and damages experienced as a result of TC Harold, through:

- **Built health sector management capacity and systems to ensure the effective and efficient delivery of quality services that are aligned with national directives**, by implementing the digital health strategy, strengthening MOH Human Resource Management, Distribution and Trainings, and strengthening the overall coordination of the Health Cluster, National Health Emergency Operations Centre and the Provincial Health Emergency Operation Centers.

- **Reduce the incidence of Communicable and Non-Communicable diseases**, by lifestyle disease prevention, family health, communicable diseases prevention and improved public health system management and primary health care.

- **Development and improvement of clinical services in health facilities,** by building workforce capacity, strengthening and refocusing education, infrastructure, training and supervision and improving existing infrastructure to better support health service delivery.

- **Prevent, Mitigation and treatment of notifiable diseases including COVID-19** – by limiting human to human transmission, risk communication and community engagement, early detection and isolation of imported cases and community cases, clinical management of cases and the on-going COVID- 19 vaccination and any notifiable diseases.

Target Outcomes:

- Implemented Digital Health Strategy, including a personal health profile system and upgraded laboratory systems.
- More equitable distribution of health care workers
- Improve coordination of Disaster Response Coordination Mechanisms
- Maternal mortality ratio continues to fall towards <80 per 100,000 live births (target <5 maternal deaths in 2023).
- Under 5-mortality rate is reduced to ≤29 per 1,000 live births.
- Annual parasitic incidence rate (API) for all cases of malaria continues to decline (towards 1 per 1,000 population).
- Reduce incidence of diabetes, heart disease, hypertension, cancers and stroke in 2023.
- 95% of children aged 12 to 23 months received three doses of combined diphtheria, tetanus toxoid, pertussis vaccine in 2023.
- 50% of formal health facilities and 40% of Aid Posts have access to improved sanitation facilities.
- Development of clinical workforce capability
- Improved local training capability in nursing (include upgrade of nursing program and opening of new nursing institution)
- Increased capacity for COVID-19 Testing and Clinical Management
- Improved surveillance system for monitoring COVID-19 patients
- Achieve 100% vaccination coverage of COVID-19 Vaccine in Vanuatu
- Continue to strengthen and support all Front Line Workers and covid-19 task forces.
- Strengthen Health Compliance to make sure all Government, Private sector, Business Houses and General Public to comply with the Covid-19 Standard Operating procedures.

Priority Outcome 5: Improved Service Delivery

The Government will continue to target improvements in the public sector and continue to support the decentralization policy that it is currently embarking on, to ensure that essential services reach people in remote areas of Vanuatu through the strengthening local authorities and municipal institutions.

The Government also aims to further strengthen the coordination of official development assistance in line with national objectives. Foreign policy plays a critical role in terms of attracting development assistance and investment into the country to complement the financing of Government priorities. In this context, the government will:

- **Enhance implementation of Decentralization** – by strengthening the provincial governments, adopting whole-of-government integrated approach, empowering area councils, establishing a governance accountability mechanism, and developing and rolling out sub-national work and training manuals on planning and budgeting that must be risk informed.

- **Improve urban management** –by developing urban development policy framework and guidelines, implementing relevant legislation, establishing of appropriate oversight institutions and urban planning and service delivery systems.

- **Increase labour mobility nationally, regionally and internationally** – through enabling the policy & legislative frameworks and strengthening of institutional and management capabilities

- **Strengthen capacity to manage growing external relations** – to continue to expand Vanuatu's global interests.

- **Enhance partnership with development partners, community-based organisations and non-governmental organisations** – through the implementation of updated policies governing the coordination of official development assistance, the reviewing of existing NGO arrangements and institutions, developing accountability mechanisms with kastom authorities, and developing memorandums of understanding with key service providers.

- **Strengthen public institutions at the head of the executive** – to continue to enable delivery of shared outcomes through implementation of reforms including the National Sustainable Development Plan and managing COVID-19 preparedness, responses and recovery.

Target Outcomes:

- The Government Machinery is reviewed to improve Government service delivery.

- Enhanced decentralisation process with systematic improvements in the framework and mechanism for service delivery at the sub-national level.

- Established and strengthened area council governance mechanism and infrastructure facilities.

- Developed structure for Malvatumauri, provincial, area, tribe and village councils.

- National Foreign Policy Framework to complement Policies responsible for the coordination and negotiation of development assistance

- Implementation of MOUs and Technical Cooperation Agreements by sector agencies

- Temporary Labour Movement programs (RSE, SWP and Pacific Labour Scheme).

- Review and Strengthen Labour Seasonal working Policy with targeted and balanced-benefits.
- VANGO strengthening and NGOs governance framework establishment.

- Enhanced regionalism through hosting the Pacific Islands Forum.

- Recovery of all forms of public infrastructure facilities that enable continuity of service delivery

- Effective Coordination and collaborative implementation of risk informed development and recovery priorities relating to COVID-19, TC Harold, and other disasters.

- Improved support for clusters systems and boarder management through strong collaboration with the Health sector to effectively contain and manage the covid-19 outbreak into communities

Priority Outcome 6: Improved Resilience and Natural Resource Management

The government will continue to ensure the protection of the natural environment on land and at sea, upon which much of our social and economic wellbeing depends, as well as continuing to build our resilience to climate change and natural hazards by:

- **Improving climate change adaptation and disaster risk management governance –** to mitigate the effects and impacts of climate change and other disasters including COVID-19 on the economy and population.

- **Increasing equitable, accessible, safe and affordable water supply and sanitation –** to increase communities' access to safe and secure drinking water sources**.**

- **Strengthening institutions and governance that protect our environment and natural resources –** to have a strong legislation and governance framework that protect our natural based resources including ocean, land and forest

- **Increasing resilience in the productive sector** to improve sustainable production in agriculture, livestock, forestry and fisheries.

- **Improving Waste Management** services and operations to reduce pollution impacts.

- **Strengthening the enforcement of Environmental Impact Assessment (EIA)** Regulations and cultural impact assessment for major economic developments with potential threats on our natural resources and cultural heritage**.**

Target Outcomes:

- Improved planning and resourcing for Disaster Risk Financing by National and Subnational Governments.

- Establishment of Multi- Hazard warning systems in all six provinces to provide efficient early warning information for natural disasters and severe weather events.

- Review and development of National and Subnational Standard Operating Procedures (SOPs), Preparedness, Response Plans, Recovery Plans for natural disasters and Pandemics such as COVID-19.

- National Disaster Risk Management Framework to manage preparation, response and recovery developed and implemented.

- Strengthened National Advisory Board to ensure sustainability of facilitation, coordination and access of climate financing
- Development and implementation of a marine spatial plan to meet goals under the National Oceans Policy
- Improved environmental and climate services in all six provinces in accordance with the decentralization policy.
- Improved safe drinking water coverage and security for all population.
- Improved sanitation coverage
- Development of standards for Household, Business and Industry Waste Management; and to improve rubbish collection management and disposals at landfills
- Improved waste management and pollution control.
- Improved management and sustainable use of forestry resources for TC Harold recovery and industrial developments in compliance with the Forestry Act
- Improved sustainable management of land-based resources in compliance with Mines and Minerals Act as well as Petroleum Act
- Developed cultural impact assessment to protect sacred sites and promote heritage sites
- Increase support to preservation of endangered species and wildlife

Priority Outcome 7: Social Inclusion, Security, Peace and Justice

The Government will continue to ensure that our society is inclusive, human dignity is upheld, and that the rights of all Ni-Vanuatu including women, youth, and the elderly and vulnerable groups are supported, protected and promoted. The Government will also ensure that society upholds the rule of law and that everyone has timely access to justice through;

- **Improving national security services–** through strengthening national security capabilities, including three elements of security forces (Police, Maritime Wing and Vanuatu Mobile Force), to ensure law and order is maintained at all times, and that peace and harmony exists in all levels of the society.
- **Strengthening of boarder control and protection-** through integrated inter-agencies border control infrastructure, modernize management systems and appropriate technology**.**
- **Implementation of gender-responsive planning and budgeting processes –** to include gender in the process of planning and budgeting for all Ministries.

- **Promoting traditional governance and Christian principles for a peaceful society** – to have a peaceful society that is based on our Christian principles and traditional and Melanesian values.

- **Establishing anti-corruption and Human Rights institutions**- ensuring that human rights for all citizens stipulated under the constitution rights is up-hold at all times, and exercised in a responsible manner.

- **Establishing and strengthening youth development support services**- including fully resourcing and strengthening National Youth Authority, review and strengthening composition of National Sports Commission and establishing systems and mechanisms for realising youth potential through entrepreneurship, apprenticeship, volunteering, Sports, Music and Arts.

Target Outcomes:

- Established National Security Council and National Security Framework.

- Reduced prevalence of crime considering all types of criminal offenses including violence against women and vulnerable groups, human trafficking, cyber-crime, drug trafficking and money laundering.

- Improved border control and protection through capacity building of human resources and the modernization of our border control systems and infrastructure

- Increased capacity of police security forces through proper training and resourcing. Ensuring that both men and women officers are equally supported.

- Continue to support the roles of Chiefs and Churches to promote Christian values and principles.

- Drafted guide notes for gender-responsive planning and budgeting.

- Improve coordination of the Human Rights activities

- Implementation of the National Youth Authority Act.

- National Sports Commission Act is reviewed and implemented

- Establishment of the National Sports system

- National Youth Volunteer Scheme established

- National Youth Farming and Business initiatives established

- National Youth Workers Association Established

- National Music policy developed and implemented

- Anti-Corruption and Human Right Institution are established.

- Improved better and affordable housing for decent living.

- Promote and safeguard Melanesian traditions and cultural knowledge and values through the National Museum, National Cultural Centre, National Library and integrated learning through the Vanuatu educational system.

Allocation of Fiscal Space to Priority Outcomes (tentative)

The Department of Sector Planning Policy and Aid Coordination (DSPPAC) with the assistance of Department of Finance and Treasury (DOFT) have been closely monitoring the trend of actual fiscal space allocation over the past years. After analyzing the trends of the actual fiscal space allocation over the past years, it is proposed that the overall fiscal space allocation for 2023, for MBC to resemble as closely as possible following allocation between the seven Priority Outcomes:

- **Priority Outcome 1:** Improved Business Opportunities and Investment Environment - 15%
- **Priority Outcome 2:** Improved Resilient Infrastructure - 20%
- **Priority Outcome 3:** Improved Education Quality and Accessibility - 15%
- **Priority Outcome 4:** Improved Quality Health Care - 15%
- **Priority Outcome 5:** Improved Service Delivery -10%
- **Priority Outcome 6:** Improved Resilience and Natural Resource Management - 15%
- **Priority Outcome 7:** Social Inclusion, Security, Peace and Justice- 10%

Chart 1: Allocation of Fiscal Space

DSPPAC Policy Analysts will work with Expenditure Analysts at DOFT to analyze each of the New Policy Proposal (NPP) submissions and try to categorize their alignment with one of the seven (7) Priority outcomes, before advising Ministerial Budget Committee (MBC)

members appropriately. This will aid MBC decision-making and should allow a comparison between the final allocation and the 2023 budget priorities allocation in this paper.

Ongoing programs from the development partners

The Government and its development partners will jointly implement programs in 2023. In previous years, the Government held several dialogues with development partners that have existing programs in Vanuatu and discussions on how the partners could align their programs with those of the Government in 2023 through stronger working relationships and coordination at the national and at the sector level. The dialogue will continue in 2023.

TC Harold and Covid-19 Recovery Priorities

The Government's TC Harold and COVID-19 recovery priorities will continue in 2023. The priority needs under the recovery are the productive sector, infrastructure and public buildings, water and sanitation, health and education. These recovery programs will be implemented in parallel and complement those of development partners and Government recurrent programs.

Any recovery program implemented by the Ministries, must be aligned with the National Recovery Strategy, to be delivered by the National Recovery Committee.

B. Fiscal Policies

The implementation of Government's fiscal policies will continue to be guided by the principles of responsible fiscal management in section 2022 of the PFEM ACT. In 2023, the Government will continue to adopt expansionary fiscal policy and allocate more financial resources towards both productive sector and social sector following the seven budget policy priority outcomes in this Budget policy Statement. Hence, the Government will continue to adopt sound financial management, encourage private sector led growth to improve service delivery and enhance economic growth.

C. Economic Update in 2022

World Economic Outlook (WEO)

Entering 2022, while recovery is still anticipated for the short and medium-term, growth has been revised to relatively slower rates in much of especially the Advanced Economies, and Emerging Markets and Developing Economies. Among other factors, the most prominent that such revisions have been attributed to are the spread of new Coronavirus of 2019 (COVID-19) variants such as Omicron and Delta, as well as Russia's invasion of Ukraine which has had and will continue to have a ripple effect on the rest of the world. Subsequent waves of the pandemic have induced the reimposition of mobility restrictions which have left dents on domestic demand and have also been detrimental to international trade by way of disrupting supply chains. Russia as a major supplier of oil, gas, and metals, along with Ukraine being a major

supplier of wheat and corn has brought on the onset of supply shortages which are expected to persist and drive-up prices sharply. As a result of the ongoing battle against the pandemic, coupled with the Russia-Ukraine tension, global growth is for 2022 forecasted to be slower than previously anticipated. After being estimated to have had rebounded in 2021 by 6.1 per cent, the pace is projected by the International Monitory Fund's (IMF) World Economic Outlook (WEO) April 2022 edition to almost halve to 3.6 per cent in 2022. Over the medium term, the IMF forecasts that this should moderate to an average of 3.3 per cent.

Table 1: International GDP Growth Estimates and Forecasts (Year-On-Year Percentage Change)

World Economic Outlook					
	2019	2020	2021	2022	2023
World Output	**2.9**	**-3.1**	**6.1**	**3.6**	**3.6**
Advanced Economies	1.7	-4.5	5.2	3.3	2.4
US	2.3	-3.4	5.7	3.7	2.3
Euro Area	1.6	-6.4	5.3	2.8	2.3
Japan	-0.2	-4.5	1.6	2.4	2.3
China	6.0	2.2	8.1	4.4	5.1
Emerging Markets and Developing Economies	3.7	-2.0	6.8	3.8	4.4

Source: International Monetary Fund, World Economic Outlook (WEO), April 2022

Risks to the outlook remain tilted to the downside marked by uncertainty. Sluggish progress towards fully vaccinating the target population in especially the non-advanced economies has weighed heavily on recovery projections. Faced with increasingly transmissible COVID-19 variants, the implication of medical services pressure and labour shortages are worrying. Moreover, amid lower revenue collections and higher expenditure to control COVID-19, governments also face considerable difficulties in administering fiscal policy. Domestic and global supply chains too are at great risk should the pandemic persist any further. In light of all these, the challenge for policymakers' remains, in finding the right mix for health and economic policies, as well as structural reforms needed to better cope with the drastic changes catalysed by the pandemic.

Regional Economic Outlook (REO)

After contracting over the last two years since the outbreak, the region is projected to rebound in 2022. While still battling COVID-19, the region's economies have to a certain degree adapted to the new norm. The 4.5 percentage point rebound from -0.6 per cent in 2021 to 3.9 per cent in 2022 is attributed to a few main factors. One of these is the reopening of borders to tourists such as has happened in Fiji and the Cook Islands, offering much-needed relief to these distressed economies. Complementing such efforts are governments' expansionary fiscal policy and especially capital expenditure on COVID-19-delayed public investment projects such as is the case for Nauru, Kiribati the Federated States of Micronesia, and Vanuatu. Also offering some economic relief in offsetting foregone tourism receipts are remittances in countries such as Tonga, Samoa, and Tuvalu. Despite the anticipated growth as a result of these factors, the battle against the pandemic is still ongoing.

Table 2: Regional GDP Growth Estimates and Forecasts (Year-On-Year Percentage Change)

Regional Economic Outlook					
	2019	2020	2021	2022	2023
Regional (Excl. AU & NZ)	**3.1**	**-6.0**	**-0.6**	**3.9**	**5.4**
Cook Islands	5.3	-5.2	-29.1	9.1	11.2
Fiji	-0.4	-15.2	-4.1	7.1	8.5
Papua New Guinea	4.5	-3.5	1.3	3.4	4.6
Samoa	4.4	-2.6	-8.1	0.4	2.2
Solomon Islands	1.2	-4.5	-0.5	-3.0	3.0
Australia	1.9	−2.4	3.5	4.1	2.6
New Zealand	2.4	−2.1	5.1	3.3	1.7

Source: Regional Economic Outlook, Asia and Pacific, IMF, October 2021; and Asian Development Outlook 2022, ADB, April 2022

Vanuatu Economic Outlook (VEO)

In the first week of March 2022, the country recorded the first case of a community outbreak which has seen cases rise exponentially over only a matter of weeks into the thousands, starting in the capital of Port Vila and spreading to the second town of Luganville and other provinces. While Vanuatu continues its efforts to counter the spread of the virus, the Council of Ministers has announced its decision to open international borders by July 2022. To better reflect these developments, the Macroeconomic Committee (MEC) reviewed the previous economic outlook of September 2021. At this last 2021 sitting, the Macroeconomic Committee (MEC) projected economic growth for 2022 at 3.7 per cent. In light of the community outbreak and implied risks, the MEC has revised this down by 0.7 percentage points to 3.0 per cent. A slower growth rather than a contraction is anticipated with a growth forecast expected to be driven by the reopening of borders by July 2022, implementation of the government infrastructure projects, and positive developments in the agriculture sector. In 2023, overall economic growth is expected to peak at 4.7 per cent before moderating over the medium term to 3.0 per cent in 2026.

Table 3: Vanuatu Economic Outlook: Real GDP (Year-On-Year Percentage Change)

Vanuatu Economic Outlook									
	Actual		*Estimate*		*Forecast*				
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP Growth (2006 Prices)	**2.9**	**3.2**	**-3.3**	**3.0**	**3.0**	**4.7**	**4.5**	**3.2**	**3.0**
Agriculture, Fishing and Forestry Sector	0.9	6.0	3.6	4.1	3.2	4.4	3.8	3.4	3.1
Industry Sector	4.9	-8.3	2.5	9.5	11.7	12.1	10.0	4.0	3.4
Services Sector	0.8	6.1	-6.7	2.0	2.0	3.5	3.6	2.8	2.6

Source: Macro-Economic Committee (MEC) April 2022 & Vanuatu National Statistics Office (VNSO)

Developments in the Agriculture, Fishing, and Forestry sector are expected to drive growth to a peak in 2023 at 4.7 per cent from 3.2 per cent in 2022, before moderating to an average of 3.4 per cent over the medium term. The forecast is expected to remain solid, boosted by the announcement of border re-opening, continued development partner support to the productive sector such as the 11th EDF program, as well as the productive sector support program of the Government. Commodity exports such as copra, cocoa, kava, and coffee are expected to remain strong but will depend largely on international export price movements. Timber production spiked recently, and production in the sector is expected to continue to improve with the

reopening of borders anticipated to induce demand for local beef and tuna. Over the medium term, the export of these proteins is expected to remain stable. The volatility of commodity prices internationally remains one of the major challenges faced by farmers, therefore the government will continue to emphasise the diversification of primary sector production in order to sustain income opportunities in the long run.

The construction subsector will remain the driving force of developments in the industry sector with sectoral growth expected at 11.7 per cent in 2022 and 12.1 per cent in 2023. Growth over the medium term is projected to remain strong at 5.8 per cent from 2024 to 2026. The combination of a majority of infrastructure projects delayed since 2020 and newly signed ones set to commence in 2022 and 2023 will spike growth in 2022 and 2023 in the subsector by 22.8 per cent and 18.4 per cent respectively. Any further delays would result in a downward revision of these impressively high estimates in the future. Electricity and water, along with manufacturing, have been hugely affected by the COVID-19 pandemic over the last two years. Borders reopening, however, is expected to boost developments in both subsectors with average growth forecasted at 2.7 per cent and 3.0 per cent in 2022 and 2023, respectively.

As is the case for the other economic sectors, the recently announced reopening of borders by July 1st 2022 by the Government has somewhat restored confidence in investors and local tourism operators' after two long years of tourism dormancy in Vanuatu. This better prospect for the industry places the overall sectoral growth at 2.0 per cent in 2022 before surging to 3.5 per cent in 2023 and then moderating to a stable 3.0 per cent over the medium term. As at the date of MEC meeting 1 of 2022, the members did not have enough information on the details of the reopening, so have resorted to making only conservative estimates at this stage. Even though the tourism sector was dealt a heavy blow by the pandemic, the Government was swift in its response to offset major setbacks that would have resulted otherwise. Major Government responses such as the Employment Stabilisation Payment, tax waivers, and commodities subsidies have all been beneficial to the domestic economy during the pandemic by way of sustaining domestic demand and purchasing power for both businesses and their employees. Over the medium term, Government support to the sector will continue through various fiscal measures such as the recently announced Special COVID-19 Banking Facility targeting Micro, Small, and Medium Enterprises (MSMEs) along with large businesses, the third phase of the stimulus package, and the farmers' loan facility (YUMI Growem) through the Vanuatu Agriculture Development Bank (VADB).

The outlook for the domestic economy also tilts to the downside. Risks associated with the current outlook include a further second or third wave of the outbreak which could trigger further lockdowns in the provinces further delaying the reopening of borders, delays in the implementation of the government investment projects, and higher inflation following the highly-likely disruption of fuel and gas imports following the war in Ukraine and Russia. In light of climate change as well, the economy remains quite permanently exposed to natural disasters which could exacerbate the current situation further. On the upside, there are factors such as effectively and efficiently managing the outbreak stemming its further spreading, the timely implementation of the third phase of the economic stimulus, and borders reopening soon.

Monetary update

Macroeconomic fundamentals remained sound throughout 2021, up to April 2022, as the twin objectives of monetary policy remained within or above their respective targets. The December 2021 annual inflation recorded 0.7 percent which remained within the RBV's 0-4 percent target bound. Vanuatu's annual headline inflation is forecasted to increase above Reserve Bank's 0 to 4 percent target range in 2022 reflecting the spill over effect of the rise in global fuel and food prices on domestic prices of food, electricity, and transport. Annual inflation is expected to recede the mid-target range in 2023 and 2024. Foreign exchange reserves have remained adequate and above the minimum threshold of 4.0 months of import cover throughout 2021 and up to the first two months of 2022. In March 2022, the level of foreign reserves was sufficient to cover approximately 14.02 months of imports. At the end of 2022, months of import cover is expected to be at 11.0 months. The RBVs monetary tools and credit facilities remained unchanged through 2021, up to the first four months of 2022. The Banks policy rate was kept at 2.25 percent. The Statutory Reserve Deposits ratio (SRD) and the Liquid Asset Ratio (LAR) were maintained at 5.25 per cent and 5.0 per cent, respectively. The Capital Adequacy Ratio (CAR) remained at 10 per cent. The Bank's Imports Substitution and Export Finance Facility (ISEFF) and the Disaster Reconstruction Credit Facility (DRCF) remained operational. The banking system's liquidity remains adequate throughout 2021 up to the first three months of 2022. At end of March 2022, excess reserves recorded VT 39,047.0 million, extremely surpassing the RBV minimum threshold of VT 3,000 million. Overall, Inflationary pressures remain a threat to achieving a sound macroeconomic fundamental in 2022.

Net foreign assets (NFA) and net credit to the central Government vis-à-vis the banking system remained the main driver of money growth in 2021, and up to the March 2022. The built up in NFA reflected inflows recorded through remittances via the seasonal workers program, the Government citizen programs and continuous donor support during the year up to March 2022. Net credit to the central Government remained favourable in March 2022 relative to March 2021 as the Government accumulates its deposits with both the RBV and commercial banks. Growth in private sector credit remained subdued in 2020, however slightly pickup in March 2022 owing to increased loans extended to both business and individuals and household sector. In 2022, NFA and net credit to the central Government vis-à-vis the banking system will remain the main driver of money supply. Growth in private sector credit is projected to remain gradual, embracing the efforts made by the Government to provide lending support facilities to the productive sector and businesses. Overall, monetary conditions will remain supportive of growth in 2022, owing to the current high liquidity holdings and sound capital positions of commercial banks.

Balance of payments

In the third quarter of 2021, the overall balance of payments recorded a surplus of VT3, 613 million. This positive position reflected surpluses recorded in all balance of payments accounts (current, capital and financial). The positive current account balance (CAB) was attributed to improvements in all CAB sub-accounts: goods, services, primary and secondary income balances. The surplus in financial account was related mainly to COVID-19 related external financial assistance. The CAB is projected to remain in surplus at the end of 2021, owing to increase inflows via remittances from the seasonal workers' program, the Government citizenship program and exports of goods. In 2022, the CAB surplus is expected to be lower, due to the expected inflationary pressures from high global fuel and food prices associated with the Russia/Ukraine war crises, the effects of the disruption in shipping amidst the COVID-19 lockdown, and the projected appreciation of the USD.

Despite these adverse developments, net inflows of foreign reserves remained robust during the first three months of 2022, owing to continuous donor support towards the COVID-19 recovery and other development funding. At the end of March 2022, net official reserves are expected to finance 14.02 months of import cover of goods and services (excluding project funds and others foreign liabilities). Official reserves are expected to remain adequate above the RBV's threshold level of 4 months by the end of 2022 and 2023.

Inflation

The year-on-year headline inflation rate was recorded at 0.7 percent in the December quarter of 2021; a lower rate from the 0.9 percent recorded in September quarter of 2021. This was driven by the ease in food inflation, as the price of root crops, fruits and vegetables stabilised from high levels in 2020. Food CPI rose 1.1 percent on a year-on-year basis compared to 1.7 percent in the previous quarter and 13.8 percent in the December quarter of 2020. Exceptionally, transport CPI rose by 2.5 percent due to rise in petrol and diesel prices. On a year-average comparison, annual average inflation dropped to 2.3 percent in 2021 from 5.2 percent in 2020. The underlying inflation rate remain subdued, recording a -0.4 percent in the December quarter of 2021 from -0.7 percent in the September quarter of 2021. This low and negative rate reflected the stable prices of other consumer categories and weak demand in some sectors of the economy.

Headline inflation will increase further towards mid-2022 reflecting the spill over effect of the rise in global fuel and food prices on domestic prices of food, electricity, and transport. The lagged effect of the rise in international fuel, food mainly grains, oils and meals, and fertilizer prices due to the Ukraine-Russia war will remain a dominant factor driving Vanuatu's headline inflation in 2022. Average crude oil prices in the world market rose sharply to record levels in March 2022 at US$112.2 per barrel, a 76.1 percent increase over a year ago. This is the highest level recorded since US$108 per barrel in June 2014. Oil prices have recently receded to US$103.4 per barrel in April 2022, however, international diesel and petrol prices remain high over concerns of supply disruptions and reduced stocks from producing countries.

Vanuatu's fixed exchange rate regime continued to anchor inflation well. While Government policy decisions on fees and charges and market conditions remain determinant factors of future price movements, imported inflationary pressure through the recent rise in international commodity prices will remain a greater risk to domestic inflation in the medium term. Vanuatu's annual headline inflation is forecasted to increase above Reserve Bank's 0 to 4 percent target range in 2022 before receding to the mid-target range in 2023 and 2024.

D. Budget Management

In 2023, the Government will continue to ensure that state debt, Government revenue and expenditure are managed and implemented in line with the PFEM ACT [CAP 244].On this note, the Government highest priority in 2023 is put more emphasis to improve service delivery and enhance economic growth by allocating financial resources towards the seven Budget Policy Priority outcomes in this Budget Policy Statement. Hence, the Government will continue to manage state debt and ensure that there is sufficient revenue to meets its expenditure programs and activities in the 2023 Budget Appropriation and at the same time achieve a balance budget in 2023.

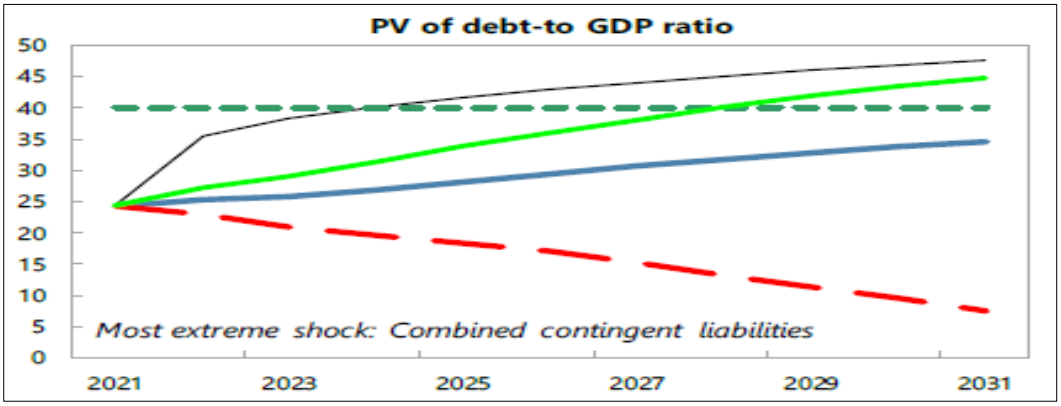
E. Government Debt and Borrowing

In the short term, the COVID-19 outbreak in the first quarter presented a challenge for debt management primarily from declining revenues from the lockdown. The crisis has reinforced the Treasury to undertake measures to continue sound debt management practices by identifying and managing risks and alerting both fiscal and monetary authorities of actions to be taken.

Vanuatu's Debt Sustainability Analysis (DSA) continues to suggest that the overall risk of debt distress is moderate. However, the country will have more scrutiny on its DSA, as it monitors closely its critical economic and debt fundamentals to better strategies and advice the Government on options going forward. A main concern for example will be the adherence to the Debt Management Strategy (DMS) with additional threat from declining revenues. With guidance from Treasury, fiscal discipline is paramount from planned expenditures as existing and other alternative sources of revenue is also needed to enhance service delivery.

From figure (1), The present value (PV) of total external debt will remain for the near term below the 40% threshold but the space at which to borrow is now greatly affected with the base line scenario in green hitting the threshold in year 2027. The green base line indicating the loss of Honorary Citizenship Program (HCP). This is the departing from the blue baseline of an economy experiencing healthy revenues from HCP. The granularity in the risk rating indicates that there is limited space to absorb shocks which underscores the importance of creating fiscal space to accommodate for future unprecedented occurrences. Thus medium-term fiscal strategy, especially revenue mobilization will be needed this year to better manage the shortfall. With experience from past fiscal challenges, engraining recovery from the pandemic also would be important in safeguarding medium-term debt sustainability.

Figure (1) – Forecasts of Vanuatu's Debt-to-GDP ratio in Net Present Value terms, under different conditions



Source: IMF, MFEM calculations

Vanuatu continues to be ranked first as the country in the world most vulnerable to natural disasters. This demonstrates the need for public investment in resilient infrastructure. Vanuatu's prudent fiscal stance and stringent debt management has continued to remain fundamental in financing resilient infrastructure.

With the current successful adherence to current debt policies, the current nominal external debt stock is 36 per cent of nominal GDP[1]. This is also still below the benchmark of 40 per cent. With continued growth of GDP, the trend will decline in the medium term (mainly due to planned debt services and prepayment programs), however this again may change slightly with the current uncertainty in the economy. There have been no alteration from planned debt services as well.

Project implementations and the disbursement of infrastructure projects will continue to counter the effect of the Covid-19 pandemic. It is thus imperative that planned disbursements of projects must continue after delays from the pandemic and effect positively on GDP. The signings of significant major projects from December last year and the first quarter include:

1. Additional Financing of VT 4.65 Vanuatu Climate Resilient Transport Project South Santo Road project (WB),
2. VT 2.7 billion Vanuatu Affordable Resilience Settlements (VARS),
3. VT 4.2 million Santo Hydropower Project (JICA) including due to their contribution to the industry and services sectors,
4. VT 565 million Budget Support (ADB),
5. VT 300 million Additional Greater Port Vila Urban Resilience (ADB)
6. VT 700 million Additional Energy Access (ADB)

Other notable projects to be signed shortly also include the VT 593 million Covid-19 Response for Affected Poor and Vulnerable Groups. The ADB Country programming mission is still yet to conclude and will likely fund the completion of the South Paray Wharf including other strategic and important projects. The total of the projects should be around VT5 billion in highly concessional loans and VT1.5 billion in grants.

[1] This figure refers to the nominal value of the total debt to GDP ratio, which is a simple calculation of the stock of debt divided by nominal GDP in each year. The Government's threshold for the nominal value of the total debt to GDP ratio is 60 per cent.

Again, all new loans will be analysed in accordance to the debt provisions in the PFEM Act, Financial Regulations and Debt Management Strategy. Also, project financing will be prioritized in accordance with its concessional terms and revenue generating capacity to assist in its loan repayments. Vanuatu will continue to opt for fully-grant funding projects. Greater scrutiny, feasibility assessment and proper processes are necessary to ensure that any new loans provide sufficient economic and social returns for both the country and to keep repayments at sustainable levels.

F. Revenue and Taxes

The Government must continue to raise sufficient revenue to be able to fund its entire public expenditure programs, respond to the public demands and be there to assist when unforeseen circumstances arise. Unfortunately for financial year 2022 the anticipated revenue targets are likely to be challenged big-time given the current community transmission of the Omicron variant back on the 5th of March 2022. Additionally with the ongoing concerns surrounding the Vanuatu EU Visa waiver agreement under its existing citizenship program, the revenue targets for this financial year will definitely be something the Government should closely monitor, to ensure its impact on national revenue is manageable.

Financial year 2020 and 2021 will remain as two of the most challenging year of revenue collection for over a decade. The restriction on border and its lengthy closure, is something unique for Vanuatu and the rest of the world and has had significant impacts on revenue collected at our boarders. 2022 is deemed to be much tougher given the current lock down, however, with the Government's plan to open the borders on the 1st of July 2022, the revenue collecting activities are likely to change.

Vanuatu Commitments with OECD Global Forum and EU Code of Conduct

In the international arena, Vanuatu continues in its obligations to meet international standards in good tax practices. This includes those set by the OECD's Global Forum on Transparency and Exchange of Information for Tax purposes (Global Forum) and the European Union's Code of Conduct Group (EU CoCG). Vanuatu continues to make ongoing progress in its obligations with the OECD Global Forum which eventually resulted in our eligibility to undergo an onsite review in the 3rd quarter of financial year 2023. Vanuatu will now have to ensure it prepares itself before the review, and if the review confirms all outstanding issues now in placed then, Vanuatu's rating can be upgraded to fully compliant.

In 2019, the EU CoCG concluded that Vanuatu had not taken sufficient steps to fulfil its commitments. To tackle this issue, the Government is working on reforms that include the review of the Business License Act. The proposed amendments to the Business License Act still requires major Policy consultations with mostly those who are likely to be affected once the bill is approved by Parliament. A draft version of the bill will need to be discussed further with the EU COCG before it can be finalised. The Government through MFEM will work towards ensuring that this get through parliament at the end of this year 2022.

With the transfer of the Vanuatu Competent Authority roles to DCIR, we anticipate to see greater results in the administrations of good tax practices to meet international standards as according to the OECD and EU. Most of these efforts have been challenged big time as a result to the Covid-19 pandemic.

Ongoing Revenue Policy Reforms

1. Revenue Governance Committee

Towards the end of financial year 2021, the Minister responsible for Finance and Economic Management has resolved to appoint new members to the existing Revenue Governance Committee. The committee is mandated to assist the government in its effort to identify potential revenue initiatives that the Government can implement. This new committee will build on from where the old committee has left, unfortunately works have slowed down as a result to the COVID 19 pandemic. Ministries were urged to work together with the Revenue governance committee.

Potential Revenue Policies

Through the works done by the Revenue Governance committee in collaboration with all Ministries concern, the following revenue initiatives have been discussed for further implementation given their potential to raise revenue.

	Revenue Initiative Name	Implementing Agency.	Status
1	Light Dues (Domestic Vessels)	MIPU - Ports and Harbour and the Office of the Maritime Regulator	Amendments to Regulation will be implemented once the regulation is approved.
2	Port Storage Charge		
3	Maritime Regulatory Levy		
4	Small Craft Registration by Manufacturers + Initial Survey Charge		
5	Maritime Mobile Service Identity (MMSI) Number Registration		
6	International Crew Management Program		
7	Slipway Charges		
8	Permanent Residency & International Companies Program	MFEM / VFSC	The Ministry of Internal Affairs will need to send Instructions to SLO to draft Regulations.
9	High Seas Transhipment Permit	Vanuatu Fisheries Department	All Initiative current in Implementation phase. Vanuatu Fisheries is currently taking charge
10	Vessel Day Scheme - Foreign Fishing Vessels in Vanuatu EEZ		
11	Export levies on Vanuatu-Flag Fishing Vessels (VFFV)		

12	Export levies on domestic Fishing Vessels (DFV)		in the implementation of these initiatives.
13	Increased purse-seine fishing in Vanuatu waters by US vessels		
14	Upper Air Space Agreement	Civil Aviation Authority Vanuatu	Vanuatu Government must discussed with Fiji Government to develop a new Commercial Agreement with the Fiji Aviation.
15	Medical Cannabis /Hemp	MALFFB , MoH, MFEM	Parliament in 2021 has approved the Bill for the Industrial Hemp and Medical Cannabis. MALFFB should take charge in the implementation of this policy working in close coordination with MFEM and MoH.
16	Excise Tax on Sugary Drinks (NCD)	MOH and MFEM	The Review on HS022 by Department of Customs and Inland Revenue is approved by Parliament in 2021 and is in its initial implementation stages.
17	Increase Tobacco Excise Taxes to WHO approved Benchmark	MOH and MFEM	
18	Duty Exemptions on building materials	MFEM	
19	Export levy on Agricultural Products	MALFFB / MFEM	

2. The Tax Administration Act

The new Tax Administration Act (TAA) which came into force as of 1st January 2020 is intended to help strengthen efforts in the collection and administration of taxes, strengthen compliance and obligate Tax payers to lodge timely payments and avoid penalties. The TAA is a service-based platform where taxpayers are helped to meet their obligation; provides for electronic payments and lodgements and enhanced customs procedures. DCIR has provided sufficient staff training and updated the Revenue Management System and processes to accommodate the new regime. The Business Community and key taxpayers have been consistently updated on these changes. Unfortunately its full implementation has been severely challenged by the COVID -19 through 2020, but we are anticipating better outcomes in 2021 and beyond. Staffing remains a huge need for DCIR. More qualified staff needs to be recruited to boost revenue compliance.

3. Review and strengthen collection on Non Tax Revenue.

The Government must continue in its effort to review its existing fees and charges collected by each of its agencies and reinforce grey areas to ensure better revenue administration and compliance. Revenue agencies should also find other ways in which revenue could be earned and ensure appropriate processes are followed to affect their policy changes.

G. Expenditure Programme and Policies

In 2023, the Government will continue to ensure that there is sufficient financial resources through both Government and Donor to finance Government expenditure programs and policies. Presenting the two components of the national budget together ensures that funding (whether recurrent or from donors) is used to pursue and achieve national policy goals and objectives as efficiently as possible. This should also avoid duplication of programs/activities and resources to meet Government expenditure programs and policies. This is essential as the Government aims to achieve a balance budget in 2023 but at the same time improve service delivery and enhance economic growth through the allocation of financial resources towards 2023 budget policy priority outcomes. In addition, the Government will continue to ensure that Government expenditure programs and policies are submitted with their medium term costing to implement the initiative of Medium Term Expenditure Framework in line with the PFEM ACT [CAB 244].

This initiative and Government reform is essential so it will be the Government's ultimate gaol to finalised 2023 budget appropriation, medium term expenditure framework and 2023 budget book before October 2022 for parliament debate in November 2022.

4. New Policy Proposals (NPPs)

The 2023 NPPs will be finalise following the Government fiscal space and confirmation of funding from Government Development partners following the seven budget policy priority outcomes. The NPPs will be considered only if they have been approved by the head of the agency and submitted in the Government financial management systems with supporting documents. In addition, NPPs must be:

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

5. Economic and Fiscal Targets for 2023

The following economic, financial and fiscal policies, objectives, and target are crucial for financial resource allocation and at the same time achieve a balanced budget in 2023.

2023 Economic Policy Targets	Long-term economic policy objectives
Budget balance Balanced Budget	Recurrent balance is positive over the medium-term.
Revenue Recurrent revenue is forecast to be at least 30.0 per cent of GDP	There is a broad revenue base with sufficient revenue to meet the balanced budget objective. Recurrent revenue growth rate must be higher than the expenditure growth rate.
Expenditure Recurrent expenditure is forecast to be at least 30.0 per cent of GDP	Expenditures are consistent with the balanced budget objective.
Debt Ensure that the Net Present Value (NPV) of external debt to GDP is less than the threshold of 40.0 per cent of GDP.	The annual Nominal Public and Publicly Guaranteed Debt-to-GDP ratio remains below 60 per cent associated with disaster and climate change-related risks.
Economic Growth Forecast Real GDP Growth rate of 4.7 per cent	The annual average economic growth rate is higher than the population growth rate.
Inflation Inflation forecast to be within its target range of 0-4 per cent.	The annual inflation rate remains below 4.0 per cent.

6. Conclusion

The 2023 Budget Policy Statement is finalised in line with the PFEM ACT [CAP 244] to achieve a balance budget in 2023 .It is finalised as a guideline of allocating financial resources in 2023.The allocation of financial resources as NPPs by both the Government and its Developments partners in 2023 will follow precisely the 2023 budget policy priority outcomes in this budget policy statement.

Therefore, it is crucial that Government adheres to this Budget Policy Statement to ensure that there is sufficient revenue to meet its expenditure programs and activities and at the same time manage state debt, improve service delivery and enhance economic growth and well-being for all the people in Vanuatu as outlined in the National Sustainable Development Plan (NSDP) – the Peoples' Plan 2030.