



RESERVE BANK OF VANUATU

PRESS RELEASE

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RESERVE BANK OF VANUATU GRADUALLY TIGHTENS MONETARY POLICY STANCE

In its meeting on April 11 2018, the Board of the Reserve Bank of Vanuatu (RBV) endorsed a gradual tightening of the monetary policy stance, by increasing the Statutory Reserve Deposit Ratio by 0.25 basis points to 5.25 percent. Furthermore, with the recent increase in the 91-days notes rate in the first quarter of 2018, the RBV Board of Directors further approved a gradual increase in the RBV's re-discount rate from 2.85 percent to 2.90 percent¹ effective on the 2nd of May 2018. Liquid Asset Ratio was maintained at 5.00 percent. Other facilities including; Import Substitution and Export Financing Facility (ISEFF) & the Disaster Financing Credit Facility (DRCF) also remained active.

In considering this decision, the Board of Directors noted that global conditions continued to strengthen. The IMF in January 2018 projected growth to increase by 3.9 percent in 2018 and expected to maintain the momentum in 2019. However, risks to growth outlook remains and include amongst others; financial market corrections, high debt levels in some countries, policy and political uncertainties as well as extreme weather events. The current global economic conditions also created an opportunity for structural reforms including increasing the output levels to create inclusive growth.

Domestically, the macroeconomic fundamentals continued to be sound. The Real economic output remained stable. For 2017, the economic growth is forecasted at 4.0 percent, supported largely by growth in infrastructure development. As these projects wrap up, economic growth is projected to recede to 3.4 percent in 2018. Monetary and financial conditions are well supportive of growth as evidenced by sound banking capital position and relatively high liquidity holding. The Government's fiscal position remained favourable over the year to December 2017.

Domestic inflation decreased to 3.2 percent in Quarter 4 from 3.5 percent in Quarter 3 in 2017. Official foreign reserve is also well above the threshold level of 4-months cover at 11.3 months at the end of December 2017, for the financing of imports and external obligations. Funding from donors towards

¹ The policy interest rate is set at 100 basis points above the prevailing 91 days notes,

development projects and inflow of funds via the banking system form the main source of the foreign reserve build up and contributed to growth in excess liquidity.

The outlook for 2018 will see inflation rate above 4 percent, largely due to impacts of the introduction of VAT and increasing food costs. It is projected to revert to the target band of 0-4 percent at the end of 2019. Foreign reserves are projected to remain comfortable within the 4 months import cover threshold.

Based on the above assessment, the Board judged that gradually tightening of the monetary policy stance was necessary given the accumulation of excess liquidity in the banking system and the expected built up in inflationary pressures. The Bank will continue to monitor developments and adjust its monetary policy accordingly. The next monetary policy statement of the RBV is expected to be released in June 2018.

Reserve Bank of Vanuatu