



# ANNUAL REPORT 2023

## **VISION, MISSION, VALUES AND PRINCIPALS**

### **OUR VISION**

Providing the necessary conditions for Vanuatu to build a strong economy and by ensuring confidence and stability in our monetary and financial system.

### **OUR MISSION**

Establish appropriate monetary conditions for price stability:

- Establish financial conditions and adopt policies that will ensure an adequate level of foreign exchange reserves to meet external obligations;
- Provide proactive and sound advice to Government;
- Develop an internationally reputable financial system;
- Inspire public confidence in the Reserve Bank;
- Meet the currency needs of the public;
- Disseminate timely and quality information;
- Recruit, develop and retain a professional team dedicated to the pursuit of quality practices; and
- Ensure sound banking practices so as to provide the protection of depositors.

### **OUR VALUES**

Honesty, fairness and integrity;

Dedication – getting the job done on time and to the highest standard;

Respect and loyalty – for our colleagues;

Proactive – in addressing our customer needs;

Excellence – in what we do.

### **PRINCIPAL PURPOSES OF THE RESERVE BANK OF VANUATU**

The principal objects of the Reserve Bank as outlined by Section 3 of the Reserve Bank Act, shall be:

- to regulate the issue, supply, availability and international exchange of money;
- to supervise and regulate banking business and the extension of credit;
- to advise the Government on banking and monetary matters;
- to promote monetary stability;
- to promote a sound financial structure;
- to foster financial conditions conducive to the orderly and balanced economic development of Vanuatu; and
- To regulate and supervise domestic and international (offshore) banks.

## TABLE OF CONTENTS

<b>1. Bank's Vision, Mission, Values and Principal</b>	<b>2</b>
<b>2. Letter to the Minister</b>	<b>4</b>
<b>3. Governor's Foreword</b>	<b>5-6</b>
<b>4. Board of Directors 2023</b>	<b>7-9</b>
<b>5. Executive Management</b>	<b>10-13</b>
<b>6. Corporate Governance</b>	<b>14</b>
<b>7. Financial Inclusion 2023 Highlights</b>	<b>17-20</b>
<b>8. Economic Overview</b>	<b>21-24</b>
<b>9. Monetary Policy</b>	<b>25-27</b>
<b>10. Official Foreign Reserves &amp; Exchange Rate Management</b>	<b>28-31</b>
<b>11. Currency Operation</b>	<b>32-33</b>
<b>12. Regulation and Supervision</b>	<b>34-40</b>
<b>13. Human Resources Development</b>	<b>41-42</b>
<b>14. Franklyn Kere Library Engagements</b>	<b>43-45</b>
<b>15. Information and Communication Technology</b>	<b>46</b>



# RESERVE BANK OF VANUATU

PMB 9062 – PIERRE BRUNET STREET– PORT VILA – VANUATU

TEL: (678) 23333 – FAX: (678) 24231

EMAIL: [rbvinfo@rbv.gov.vu](mailto:rbvinfo@rbv.gov.vu)

## Letter to the Minister

30 April 2024

Honorable John Salong Dammasing  
Minister of Finance and Economic Management  
Ministry of Finance and Economic Management  
PMB 9031  
Port Vila

Dear Honourable Minister,

Pursant to Section 41(1) of the Reserve Bank of Vanuatu Act [CAP 125], and on behalf of the Reserve Bank of Vanuatu, I have the honour to transmit to you:

- (a) A report on the operations of the Reserve Bank of Vanuatu for the financial year 2023; and
- (b) A copy of the Bank's Annual Statement of accounts for the year-ended December 31, 2023 certified by the Auditors.

Yours faithfully,

Noel Vari

**ACTING / DEPUTY GOVERNOR**



## Governors Foreword

As we present the Reserve Bank of Vanuatu's 2023 Annual Report, we reflect on a year filled with global challenges and domestic economic strength. Throughout the year, despite shifting economic conditions, Vanuatu's financial story has been shaped by both adversity and resilience.

On the global front, the year was marked by slower economic growth, largely due to the lasting effects of the pandemic and rising geopolitical tensions."

"Despite these challenges, our key trading partners showed a mix of economic outcomes. The US and Australia made progress, while New Zealand and the Euro area struggled with downturns. The varying inflation rates in these economies had a noticeable impact on our monetary policy decisions as we worked to maintain stability amid changing global conditions.

At home, Vanuatu's economy showed cautious optimism, driven by the strength of the industry and services sectors. There were promising signs in exports, especially with cocoa, beef, and timber, along with a boost in domestic agricultural production. The tourism sector also played a key role in economic recovery. However, ongoing challenges, like the lasting effects of natural disasters and disruptions in airline services, highlighted the need for flexible policy measures."

In tackling these challenges, our monetary policy played a crucial role. Inflation became a major concern, rising to 12.1% in 2023 due to both domestic and global factors. However, with strong foreign reserves, enough to cover at least 8 months of imports, we remained resilient against external shocks. To address inflation, we gradually tightened our monetary policy by reducing open market operations and increasing the Statutory Reserve Deposit ratio.

reducing open market operations and increasing the Statutory Reserve Deposit ratio.

Throughout the year, our policy tools helped maintain stability, keeping the policy rate at 2.25%, supported by measures like the Liquid Asset Ratio and Capital Adequacy Ratio. Facilities such as the Import Substitution and Export Finance Facility and the Disaster Recovery Credit Facility continued to support the economy during difficult times.

A key part of our operations was managing foreign exchange reserves, which reached a historic high of VUV 74.98 billion, covering 9 months of imports. We managed currency risks through foreign exchange transactions, including arbitrage deals, to ensure the safety, liquidity, and profitability of our reserves.

With rising global inflation, central banks around the world adjusted their policy rates, which influenced our investment strategies. We focused on short-term money markets to take advantage of higher deposit rates. This strategy led to a strong performance, with a 4.35% annual return. Despite fluctuating exchange rates, we kept currency risks close to zero through regular hedging and clear communication with stakeholders.

We also remained committed to regulating and supervising the financial system. The Vanuatu financial sector showed resilience after the COVID-19 pandemic, supported by recoveries in major economic sectors. We continued rigorous monitoring and compliance efforts, especially concerning anti-money laundering and counter-terrorism financing, in collaboration with the

Supervisory Working Group.

Efforts to strengthen our regulatory frameworks continued, with updates to the Risk-Based Supervision Framework following international best practices. Both domestic and international banks operated within regulatory boundaries, with interest in new banking licenses showing steady growth.

In summary, the Reserve Bank of Vanuatu plotted a course through a complex financial environment in 2023, balancing global challenges and opportunities. Through careful reserve management, strategic investments, and strong regulatory oversight, we remained committed to financial stability and economic growth. Looking ahead, we are ready to adapt our policies to ensure Vanuatu's continued resilience and prosperity."

In closing, I extend my deepest gratitude to our dedicated team, stakeholders and all Ni Vanuatu, for their prayers and loyal support.

Collectively, we will stay the course and through challenges, seizing the opportunities garnering the continued trust and confidence of the public in financial stability and growth of our nation and the economy.

Sincerely,



Noel Vari

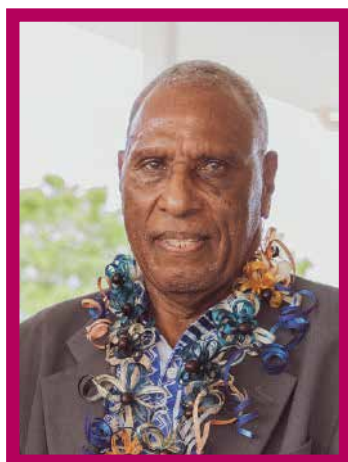
**ACTING GOVERNOR**



# BOARD OF DIRECTORS

## 4. Board of Directors

### i. Chairman to the Board of Directors



**Mr. Andrew Kausiama**

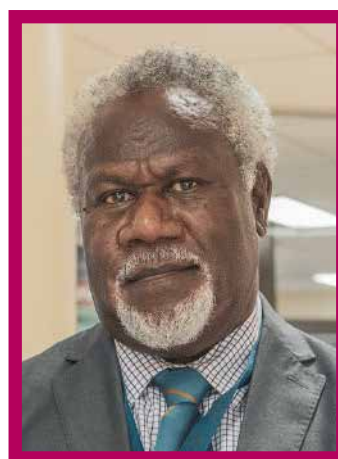
Mr. Andrew Kausiama became Chairman of the Reserve Bank of Vanuatu Board of Directors in 2020, previously serving as Governor of RBV from 1998 to 2003. He held various positions within the Vanuatu Government, including First Political Advisor and First Political Secretary to the Prime Minister's Office, and First Secretary roles in the Ministry of Trade and Ministry of Finance. Earlier in his career, he served as a Planning and Development Officer at the University of the South Pacific's Laucala Campus in Fiji.

Mr. Kausiama's extensive Board experience includes chairing the RBV Board of Directors, serving on the Boards of Air Vanuatu and Vanuatu Terminal Services, chairing the National Housing Corporation Board, and acting as Vice Chairman of the Censorship Board. He also held research positions at the

Reserve Bank of Vanuatu, including Research Officer, Senior Research Officer, Principal Research Officer, and Acting Director of Research.

He holds a Bachelor's degree in Economics and Political History from the University of the South Pacific and a Master's degree in Commerce with a focus on Economics from the University of Wollongong, Australia.

### ii. Board Member



**Mr. Simeon Malachi Athy**

Mr. Simeon Athy was appointed Governor on November 15, 2013, and reappointed for a second 5-year term in November 2018. He serves as Alternate Governor for Vanuatu at the International Monetary Fund (IMF) and holds multiple chairmanships including the RBV Management Committee, Monetary Policy Committee, Macroeconomic Committee, and National Financial Inclusion Taskforce. He is also Vice Chairman of the AML&CTF National Coordinating Committee

# BOARD OF DIRECTORS

and previously chaired the Pacific Island Regional Initiative (PIRI).

Before his governorship, Mr. Athy held senior roles at the Reserve Bank of Vanuatu (RBV) and in the Vanuatu Government. He served as Director of the Research Department at RBV from 1999 to 2003, followed by positions as Director General at the Ministry of Finance and Economic Management (2003 to 2008) and Director General of the Prime Minister's Office (2008 to 2013).

Mr. Athy earned a Bachelor's Degree in Economics from the University of Papua New Guinea (UPNG).

## iii. Board Member



**Mrs. Votausi  
Mackenzie -  
Reur**

Mrs. Votausi Lucy-Ann Mackenzie-Reur became a member of the Reserve Bank of Vanuatu Board of Directors in 2020. She is a well-known nutritionist and has co-hosted the Pacific Island Food Revolution film series since 2018. Since 1999, she has served as Managing Director of Lapita Café, overseeing the production of food products from local crops sourced from a network of over 2000 rural farmers. Additionally, she

has been Managing Director of Lapita Lodge since 2005 and has served as Director of Fibreglass Vanuatu Limited and Pacific Polytanks Limited since 1997.

Mrs. Mackenzie-Reur taught at Malapoa College for two years in the 1980s and served as National Nutrition Coordinator in the Department of Health in the late 1980s to early 1990s.

She holds a Master of Community Nutrition from the University of Queensland.

## iv. Board Member



**Mrs. Serah  
Obed**

Mrs. Serah Obed joined the Reserve Bank of Vanuatu Board of Directors in 2020 and currently serves as CEO of VANWODS MFI, alongside other consultancy engagements. Previously, she held the role of Deputy Commissioner at the Vanuatu Financial Services Commission (VFSC) for 19 years until 2019. During her tenure, Mrs. Obed specialized in anti-money laundering regulation, supervising non-bank entities and designated non-financial businesses and



# BOARD OF DIRECTORS

professions, and gained expertise in taxation and audit.

Before her work at the VFSC, Mrs. Obed served as a Senior Auditor and Principal Auditor at the Auditor General's Office. She possesses extensive knowledge in financial and forensic accounting, financial analysis, company financial statements, and financial performance evaluation.

Mrs. Obed holds a Bachelor's degree in Business Studies with a focus on Accounting from the University of New England, Lismore, NSW. She furthered her education with a Bachelor of Management and a Masters of Business Administration from Revans University.

Mr. Tahi offers expertise on market development and trends.

Additionally, Mr. Tahi is well-versed in Vanuatu's legislation, practicing law as a recognized associate of a local law firm in Vanuatu.

## v. **Board Member**Director



**Mr. Stephen  
Tahi**

Mr. Steven Tahi was appointed to the Reserve Bank of Vanuatu Board of Directors in 2021. With extensive experience in land management and reforms, he held principal roles in the Ministry of Lands for 14 years before transitioning to a 15-year private consultancy practice. As a qualified valuer,

## 5. Executive Management Team



**Noel Vari**  
Deputy Governor

Noel Vari was appointed Deputy Governor on December 1, 2021. He served briefly as Acting Governor from November 2023. He served as the Director of the Financial Regulation Department from 2007 to 2021.

Mr. Vari holds an Undergraduate Bachelor's Degree in Economics from the University of Papua New Guinea and obtained a Masters of Business from the University of Sydney in 2005.

Deputy Governor Noel sits on several Committees and initiatives, including the Reserve Bank Management Committee, the RBV Monetary Policy Committee, the RBV Investment Committee, RBV Other Revenue Making Initiative Committee, RBV Policy Review Working Group, the Financial Inclusion Regulatory Task Force, the national AML CTF Regulatory Task Force Committee, and the National Payments System Project Committee. Mr. Vari also chairs the Comprehensive Credit Reporting Project.



**Dr. Michael Hililan**  
Advisor to Governor

Dr. Michael Samuel Hililan, serves as Advisor to the Governor. He holds a Doctor of Philosophy (PhD) in Economics from the University of Wollongong, NSW, Australia (2013), a Master of Science (MSc) in Economics from the University of Bradford, United Kingdom (2003), and a Bachelor of Arts (BA) in Economics and Management from the University of the South Pacific, Suva Fiji (1989).

Dr. Hililan has held other senior management positions including Director of Financial Markets Department (2006-2009) and Director of Research and Statistics Department (1997-2005). He also served as advisor at the Office of the Executive Director of the International Monetary Fund in Washington DC (1999-2001).



**Simon Tiwok**  
Advisor

Mr. Tiwok serves as the Head of Policy Formulation and Coordination. In this capacity, he leads strategic initiatives and responsible to coordinate policy efforts within the Reserve Bank.

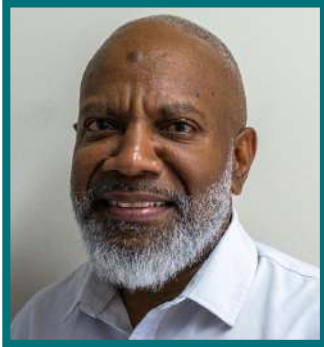
He holds a Master's degree in Public Policy from Victoria University of Wellington, New Zealand, and a Bachelor's degree in Economics and Management from the University of the South Pacific, Fiji.

He represented the Reserve Bank as temporary alternate directorship at the Executive Director's Office of the Asian Development Bank (ADB), Manila, Philippines.



**Marinette Abbil**  
Director, Financial  
Regulations Department

Marinette Abbil is the Director of Financial Regulations Department. She holds a Bachelor's Degree in Management and Public Administration from the University of the South Pacific, Fiji (1993), a Graduate Diploma in Business Administration from Southern Cross University, and a Masters of Business Administration from the University of the South Pacific, Emalus Campus, Port Vila (2022).



**Kensen Seri**  
Manager Finance  
& Officer  
In Charge Support  
Services  
Department

Mr. Kensen Seri is the Officer in Charge of the Support Services Department, covering Currency, Banking and Payments, Finance, Logistics, Property and Assets, and Library Operations. He holds a Bachelor's Degree in Management Studies from the University of Waikato and began his career as an Assistant Chartered Accountant at PKF Chartered Accountants. His previous roles include Senior Internal Auditor in the Ministry of Finance and Economic Management.



**Cynthia Ngweleduru**  
Senior Economist  
&  
In Charge Officer

Cynthia Ala serves as Officer in Charge of the Economics and Research Department and is a Senior Economist within the Economics and Research Department. She earned a Bachelor of Arts degree from the University of the South Pacific in 1997 and a Graduate Diploma in International and Development Economics from the Australian National University in 2011.



## **Linnes Tarianga** Legal Counsel

Mrs. Linnes Tarianga is the Legal Counsel to the Reserve Bank. In this role, she provides legal guidance and support, ensuring the institution's regulatory compliance and overseeing legal matters crucial to RBV's operations. She holds a Bachelor of Law Degree from the University of the South Pacific (USP) in Fiji in 1997, followed by further studies at the Emalus Campus for subsequent LLB levels. She also holds a Professional Diploma in Legal Practice (PDLP) from the University of the South Pacific Laucala Campus in Fiji (2002) .



## **Andrea Molisa** Head of Communications

Ms. Andrea Daniella Molisa, a member of the Senior Management Committee at the Reserve Bank of Vanuatu, serves as Head of Communications since January 1st, 2022.

Andrea earned a Bachelor's degree in Management, Public Administration, and Tourism Studies from the University of the South Pacific. As Head of Communications, she is responsible to ensure the Reserve Bank's messaging platforms and communications resonates authentically to the public.

# Corporate Governance

The Reserve Bank of Vanuatu was established in December 1980 under the Reserve Bank Act of 1980. Its principles objectives are set out in Section 3 of the Reserve Bank Act (Cap 125). Its role as regulator are set out in various legislations, including the Financial Institutions Act (CAP 254) of 1999, the International Banking Act (CAP 280) of 2002, the Insurance Act (No.54) of 2005, and the National Payment System Act (No. 8) of 2021.

The Governor of the Reserve Bank of Vanuatu, is its Chief Executive Officer. He is appointed by the Prime Minister on the recommendation of the Minister of Finance and Economic Management. The Governor is responsible to the Board for the execution of its policies and management of the Reserve Bank.

## **i. Board of Directors**

The Minister responsible for Finance appoints the Board of the Reserve Bank. Section 8 of the Reserve Bank Act establishes the Board of Directors. The Board is responsible for the policy and affairs of the Reserve Bank.

The Board is fairly constituted with 5 members: The Governor, as an ex-officio member, and four non-executive members; one of whom is the Chairperson and two of whom are women, giving a gender balance on the Board over the last few years. Although there is no position of a Deputy Chairman, the Board conducted its business normally in 2023 and within the parameters of the law and the Board Charter which is the Reserve Bank's principle Governance policy.

## **Board Composition 2023**

### **Chairman**



1. Mr. Simeon Malachi Athy (Up to November 2023)
2. Mr. Noel Vari, (Acting Governor, November-December 2023)
3. Mrs. Votasi Mackenzie- Reur
4. Mrs. Serah Obed
5. Mr. Steven Tah

## **ii. Meetings and Resolution**

The Board is required to meet not less than 4 times a year. The Board held 8 meetings in 2023. Amongst other policies, the Board noted and approved the following:

1. Reserve Bank Guideline on Oversight of Retail Payment System and Large-Value Payment System;
2. Reserve Bank 2022 Audited Financial Statement;
3. Reserve Bank Risk Budget for 2023;
4. Reserve Bank of Vanuatu Annual Budget for 2024.

## **iii. External Auditor**

The Reserve Bank's current external auditor is Law Partners (Vanuatu), appointed in 2021 for a period of five years beginning in 2022. The external auditor is appointed in line with section 40 of the Reserve Bank of Vanuatu Act Cap.125.

## **iv. Corporate Social Responsibility**

The Reserve Bank's philanthropic activities and support to communities and those affected by natural disasters is guided by its Social Responsibility Policy.

## **v. Legal Counsel's Office**

The Legal Counsel's Office continued to provide support to all Departments within the Reserve Bank. It provides in house legal services in relation to diverse legal contractual and operations matters.

The Legal Counsel's office also plays an important role in the legislative process as regards to preparing policies for amendments and new legislations that the Reserve Bank administers.

Amongst other functions, the Legal Counsel also participates in various Reserve Bank committees and assists with development of the Reserve Bank's internal and other policies whilst it continues to provide secretariat functions for both the Management Committee and the Board of Directors.

As the Reserve Bank develops and takes on new mandates, the role of the Legal Counsel's Office will also expand.

## **vi. Laws affecting the operations of the Reserve Bank.**

There were substantial amendments to Reserve Bank Act Cap.125 in 2022 which continued to affect the operations of the Reserve Bank to date and has undermined the governance of the Reserve Bank as the Monetary Authority.

#### **vii. Board View on Governance and Risk Management within the RBV**

The Board considered the Reserve Bank's risk policies and Business Continuity plan and continuous update and is satisfied with the measures taken to mitigate risks.

However, the Board recognizes that the Reserve Bank Amendment Act No.10 of 2022 has exposed the Reserve Bank to elevated operational risks. The amendments had diminished the Reserve Bank's resilience in line with good governance principles.

The Board is concerned over the continuous loss of qualified human resource at the senior management level that has occurred due to the lack of consideration in the amendments made to the Reserve Bank principle legislation in 2022.

#### **viii. Internal Audit - Strengthening Good Governance, Risk Management and Internal Controls**

The Reserve Bank's internal audit unit was established as part of the corporate review undertaken in 2018 to strengthen the Reserve Bank's governance framework. The establishment of the internal audit unit reinforces compliance and operational risk management and the internal control functions of the Reserve Bank. The internal audit function compliments the work of the middle office which oversees foreign reserve management risks and compliance to the

middle office which oversees foreign reserve management risks and compliance to the to the Audit Committee, which is a subcommittee of the Board.

# **RBV's PARTICIPATION IN AWARENESS RELATED EVENTS**

## **i. Financial Literacy awareness workshop with each other**

The Reserve Bank together with other stakeholders were part of two awareness workshop programs in 2023. The workshops, in coordination with the Vanuatu Grass Roots Association, collaborated with different communities in Port Vila, in particular, on Financial Literacy training to selected communities.

The First awareness workshop was held at Malasitapu Church Hall, Fresh Wota, Port Vila on 05<sup>th</sup> June – 09<sup>th</sup> June 2023 and the second awareness workshop was held at Tanoliu Village, North Efate on 28<sup>th</sup> August– 1<sup>st</sup> September 2023.

The Reserve Bank facilitated these two workshops allowing different communities to gain Financial Management skills, from relevant external stakeholders and Reserve Bank staff.

## **ii. The National Week of Agriculture**

The 3<sup>rd</sup> edition of the National Week of Agriculture (NWA) was hosted in Lakatoro,

Malekula Island on 28<sup>th</sup> August – 1<sup>st</sup> September 2023. The Reserve Bank was also a main sponsor of the event and provided Financial Literacy awareness to the general public.

Representatives from allocated departments within the Reserve Bank presented awareness materials to the public mainly centering around the event's theme, "Yumi Leftemap Prodaktif sekta Mekem Vanuatu hemi fud secure".

## **Other FIU Events Highlights 2023**

### **iii. Financial Inclusion Exposition**

The Financial Inclusion Exposition is a bi-annual event organized by the Reserve Bank specifically towards empowerment and protection for consumers and pointing to the expanse of financial products and services available in the market.



Figure 1: Panel Session 1 - Financial Services Reaching the People (High Level). Panelists left - right; Minister MTTCIVNB, Hon. Matai Seremiah (right); RBV Governor, Mr. Simeon M. Athy (second from left); Minister MFEM, Hon. John Salong (second from right) and, Moderator; Manager FIU, Mr. Andrew John (far right).

The 2023 Financial Inclusion Exposition was hosted in Unity Park, Luganville Santo from 11<sup>th</sup> May 2023 – 12<sup>th</sup> May 2023 with the theme “Building Resilient and Sustainable Communities through Inclusive Finance”. Given the Government’s endorsement in encouraging more activities to be decentralized, the event received attention from different stakeholders, offering opportunities for the public in the northern provinces to learn more about the different accessible financial products and services available to Ni-Vanuatu.

The event was a success drawing much public participation in relevant topic discussions, likewise involving school competitions that culminated in three (3) schools each winning an amount of VT100,000. These financial prizes were banked with selected commercial banks. The winning funds will assist the select schools with their proposed business plans as presented during the competition.

#### iv. Education Awards

The education award is an annual event organized by the Reserve Bank of Vanuatu to recognize and award two excelling

students in mathematics in Francophone and Anglophone Schools throughout Vanuatu. The awardees are selected on merit able grounds and ensure a balance of both genders. This year’s awardees are inclusive of years 2021 and 2022 whom were not awarded in 2021 due to the pandemic, making a total of eight (8) students altogether being awarded at Unity Park, Luganville on 12<sup>th</sup> May 2023, being the second day of the Financial Inclusion Expo.

All events transpired at the same time in Luganville, leading to a successful finish, with the vital support and team work shown by the Reserve Bank Exposition team. The event was graced with the auspicious presence of the Prime Minister Honourable Ismael Kalsakao Maukoro at the official opening, accompanied by other high level representatives and chiefs of the northern districts.

#### v. Reserve Bank & Telecommunication Ratio & Broadcasting Regulatory (TRBR) Amendment of MUO

The signing of an amendment to the existing Memorandum of Understanding (MOU) between the Reserve Bank and the TRBR took place at the RBV Board room.

In terms of strengthening financial supervision and regulation, particularly as regards mobile money services, this amended MOU represents a significant step forward.



*Figure 2: Signing of the amended existing MOU between the Reserve Bank of Vanuatu (RBV); Governor, Mr. Simeon MATHY (second, left) and, the Telecommunications and Radio Communications and Broadcasting Regulator (TRBR); Regulator, Mr. Brian Winji (second on right)*

The historical Memorandum of Understanding marks an important juncture in Vanuatu's mobile banking services.

And in view of the fact that such transactions are related to financial operations, this amendment will enable the Reserve Bank to have complete supervisory powers in respect of mobile money operators.

#### **v. Data Diagnostic Assessment**

The Reserve Bank conducted a Data Architecture Diagnostic Assessment on 19<sup>th</sup> June 2023 – 23<sup>th</sup> June 2023, seeking to map out its current supervisory data architecture, identify key challenges in reporting, data management and use, and capitalize on opportunities for data automation, towards enhancing supervisory efficiency, financial inclusion, and digital innovation.

The assessment was technically facilitated by Talanta 10, a data and technology innovation company that works with the UNCDF to help organizations harness optimum value from their data value chain.

The assessment involves the Reserve Bank and other key financial sector stakeholders in Vanuatu providing valuable inputs, insights, and expertise to ensure a comprehensive understanding of the supervisory data processes, gap, and opportunities. An outcome report of the assessment was completed and provided in October 2023.

#### **vii. 2023 Alliance for Financial Inclusion (AFI) Global Policy Forum (GPF)**

This year's GPF is co-hosted in Philippines on 12<sup>th</sup> September – 15<sup>th</sup> September 2023, by AFI and one of its founding members Bengko Sentral ng Philipinas (BSP) under the event tagline, **“Stable, Sustainability, and Inclusivity for Shared Prosperity”**, emphasizing the importance of financial inclusion and sustainable development for monetary and financial stability.



*Figure 3: Deputy Governor Noel Vari (third, left) at the Pacific Islands Regional Initiatives (PIRI) meeting, Manila, Philippines*

The Deputy Governor, Mr. Noel Vari, led the Reserve Bank team to attend this 2023 AFI GPF event, for which the team participated in all working group meetings, Annual General Meeting and the Pacific Islands Regional Initiative (PIRI) meeting.

#### **viii. 2023 Pacific Labour Mobility Annual Meetings (PLMAM)**

The Vanuatu Government and the PACER Plus Implementation Unit invited the Reserve Bank to participate in this very important annual meeting on 20<sup>th</sup> November 2023.

The years' theme, “Harnessing the development benefits of labour mobility” has caused the PLMAM to recognize the role of the Reserve Bank of in financial inclusion and promoting household savings and thus,

provided an opportunity to highlight the initiatives in the area during PLMAM 2023.

The Acting Governor, Mr. Noel Vari with the Reserve Bank Delegation in attendance, spoke on the topic of “savings by workers, their households and local communities” opportunities for Pacific and Timor - Leste.



# BRIEF ECONOMIC OVERVIEW

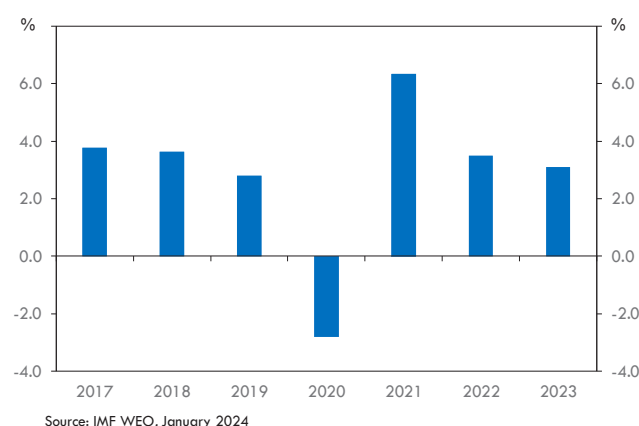
Global economic growth softened in 2023 partly as global central banks undertook aggressive monetary tightening to reign in on inflation and because of geo-political tensions. This development weighed heavily on international economic and financial conditions. In spite of this, a projected moderate recovery in the Vanuatu economy remained well on track in 2023.

## i. INTERNATIONAL ECONOMIC DEVELOPMENT

Global economic growth slowed in 2023 relative to 2022, owing to the persistent effects of the global pandemic and geopolitical tensions. In addition, tighter financial conditions continued to weigh on overall global demand, and economic activities. This development bore heavily on the Reserve Bank's accommodative monetary policy in the first half of 2023. However, a shift to a tighter monetary policy by the Reserve Bank began in the second half due to concerns for high domestic inflation.

According to the IMF World Economic Outlook (WEO January 2024), global growth was projected to slow to 3.1 percent in 2023 from 3.5 percent in 2022, driven mainly by advanced economies such as the Euro area which were significantly affected by geopolitical tensions due to close proximity and connection to the affected countries.

**Chart 1: World GDP**



However, growth improved in a number of Vanuatu's major trading partners in 2023 as inflation eased significantly relative to 2022.

Growth in the US registered 2.5 percent in 2023, up from 1.9 percent in 2022, driven mainly by improved consumer demand and supply conditions. Labour market conditions improved in 2023 with strong job creation, increased supply of labourers and declined job vacancies. Inflation remained above the Federal Reserve's objective of 2 percent; but eased substantially in 2023 to 3.3 percent in December (12-month percentage change) from 6.4 percent in December 2022. These changes reflected the Federal Reserve's

elevated monetary policy tightening over the year. The federal funds rate increased by 1 percentage point in 2023 reaching 5.5 percent in December compared to a 4.25 percentage point's increase in 2022.

The Australian economy showed slight improvement of 1.5 percent in 2023 compared to a 2.4 percent growth in 2022, mainly from weak consumer spending. Inflation remained above the RBA's target of 2-3 percent over the year, though it moderated to 4.1 percent (annual percentage change) in December 2023 from 7.8 percent in December 2022. The RBA raised its policy interest rates on six occasions in 2023 compared to 8 in 2022. Accordingly, the official cash rate reached 5.5 percent at the end of 2023 compared to 4.25 percent at the end of 2022.

New Zealand's economy was estimated to have declined in 2023 from 2022 amidst weak consumption and investment activities. Actual<sup>1</sup> average GDP growth showed slightly improvement by 2.4 percent over the year to September 2023 compared to 2.6 percent over the year to September 2022. Even though inflation remained above the RBNZ's inflation target of 1-3 percent in 2023, it has notably declined over the year, reaching 4.7 in December from 7.2 percent in December 2022.

Economic activity in the Euro area portrayed a weakening trend in 2023 as consumption and investment indicators showed downward trends in terms of major income and expenditures. The economy grew by 0.1 percent over the year to December 2023 relative to 1.8 percent over the year to December 2022. Inflation has notably declined to 2.9 percent at end of 2023 from 9.2 percent at end of 2022. The European

Central bank (ECB) increased its interest rate on refinancing operations by 2 percentage points over the course of 2023, reaching 4.5 percent in December 2023 from 2.5 percent in December 2022.

In terms of global commodity prices, the IMF's all global commodity prices declined on average by 12.6 percent in 2023, mainly due to a 3.2 percent reduction in food prices and a 21.5 percent decline in energy prices. Reduction in food prices were driven mainly by improved supply conditions, while energy prices mainly reflected slowing demand and improved supplies.

## ii. DOMESTIC ECONOMIC DEVELOPMENT

Vanuatu's economy is estimated to have grown slightly in 2023 from its 2022 levels. The Macroeconomic Committee projected<sup>2</sup> growth at 3.3 percent in 2023 up from 2.7 percent in 2022. From a production approach, growth was driven by the industry and services sectors. Domestic consumption remained the main driver of growth.

Indicators in the productive sector showed positive growth in cocoa, beef and timber exports. Anecdotal evidences showed pick up in domestic crop production towards the second half of 2023, by respective communities and households in light of post-cyclone recovery efforts. Various Government subsidies<sup>3</sup> continue to target the agriculture sector in forms such as the 90/10 and 80/20 subsidies and through the ongoing support of donor financing, through

<sup>1</sup> Actual GDP figures for December have not yet been published

<sup>2</sup> Vanuatu Macroeconomic Committee (MEC) meeting in October 2023

<sup>3</sup> The 90/10 subsidy applies to farming and fishing tools and equipment whose cost is over VT 60,000. The Government subsidy covers 90% of the cost while farmers and fishers pay 10%. The 80/20 subsidy applies to

the EDF11 program in efforts to boost food production.

Partial indicators in the industry sector, showed a slow progress in major government infrastructure projects throughout 2023. Lending to the construction sector also contracted by 15.0 percent over the year to December 2023.

The services sector rebounded in 2023 following the re-opening of borders in 2022 and driven predominantly by the tourism sector. Total visitor arrivals recorded 264,975<sup>4</sup> in 2023 compared to 65,086<sup>5</sup> visitors recorded in 2022 and 255,685<sup>6</sup> visitors in 2019 (pre-COVID). The wholesale and retail services sectors have also picked up, attributed to expansion of businesses and additional players in the market.

Domestic growth faced a number of downside risks, in domestic labour shortage and the impact of price increases on the cost of construction materials and higher import costs. One of the most significant risks related to the ongoing operational and financial difficulties of Air Vanuatu given its key role in the important tourism sector and its sectoral linkages with other economic sub-sectors. Sectoral impediments to growth from the impact of natural disasters and climate change continued to affect output in the agriculture sector and the condition of physical infrastructure such as roads.

A rise in domestic consumption was supported mainly from income earned domestically and abroad, as well as transfers related to donor assistance recovery efforts. Partial indicators of consumption such as the level of VAT revenue showed an increase of 26 percent over the

year to December 2023, relative to the same period of the previous year.

Lending for personal consumption recorded an annual growth of 25.2 percent over the year to December 2023. By contrast, energy consumption<sup>7</sup> showed an annual decline of 7.0 percent for the year to September 2023. Investment activities have remained stable throughout the year. Development funds recorded by the Government contracted by 8.0 percent over the year to December 2023, relative to the same period of 2022. The partial indicator of private investment from commercial banks' lending for housing and land purchases declined by 2.1 percent at the end of 2023 relative to the same period of 2022.

In terms of external trade development, estimates of overall trade in the goods balance deteriorated in 2023 as higher imports outweighed an increased level of exports. Increased overall exports of goods continued to be driven by kava, copra and other export products while imports of goods continued to be driven by food and beverages, mineral fuel and machinery and equipment.

Increase in domestic labour demand continued in 2023, as the total number of job vacancies rose by a significant 108 percent relative to 2022. Moreover, the number of the National Provident Fund contributing members increased by 5.6 percent during the September quarter of 2023 relative to 6.9 percent recorded in same quarter of 2022.

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equipment costing less than VT 60,000. The Government subsidy covers 80% and farmers cover 20% of costs.

<sup>4</sup> January to October 2023

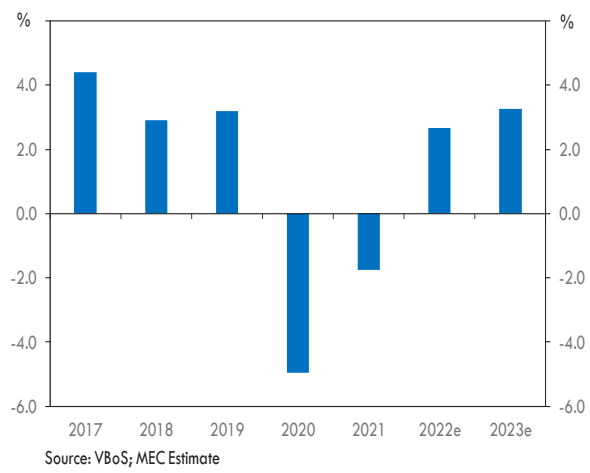
<sup>5</sup> July to December 2022

<sup>6</sup> January to October 2019

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<sup>7</sup> January to September only

**Chart 2: Real GDP Growth**



# MONETARY POLICY

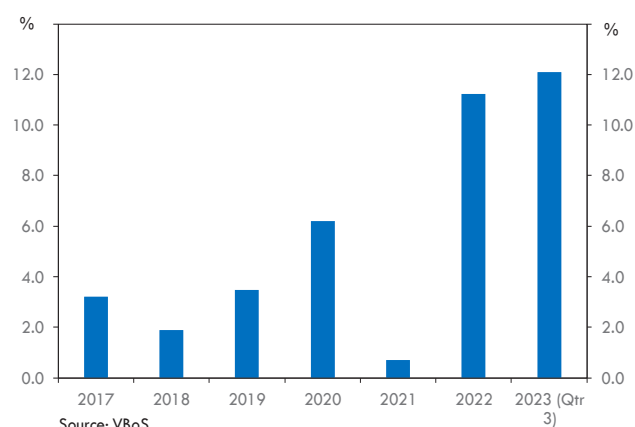
Section 3 of the Reserve Bank of Vanuatu Act (CAP 125) prescribes on the Reserve Bank the statutory responsibilities of promoting monetary stability and for fostering financial conditions conducive to the orderly and balanced economic development of Vanuatu. It conducts monetary policy to promote monetary stability and economic growth, by ensuring a low and stable rate of inflation; and sufficient international reserves to meet Vanuatu's external obligations. The Reserve Bank aims to keep the annual inflation rate within a target range of 0 and 4 per cent; and international reserves sufficiently above a minimum threshold of 4 months of import.

## 2.a) Inflation

The emergence of a high level of inflation was a key policy challenge in 2023. This development reflected a number of international and domestic factors, much of which were beyond control of the Reserve Bank. That said, anecdotal evidence also points to rise in domestic demand in 2023. Estimated average annual inflation rose to 12.1 percent from 6.7 percent in 2022. High domestic prices were recorded over all quarters of the year and were mainly driven by domestic and external factors, including constraints in domestic food supply chain from the impacts of the tropical cyclones, high labour costs, a one-off large increase in minimum wages, higher global energy and food prices, higher transportation related costs and lack of competition among major

domestic service providers. Underlying inflation, which excluded food and energy prices and was low over a historical trend, rose to its highest peak at 11.2 percent in 2023.

**Chart 3: Domestic Inflation**

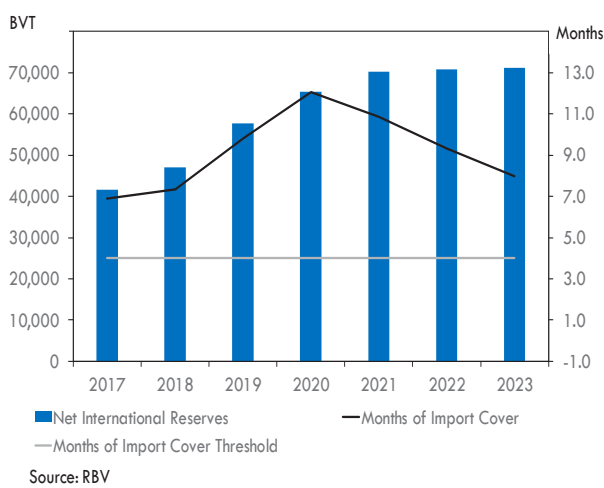


## 2.b) Foreign Reserves

Official foreign exchange reserves remained adequately above the Reserve Bank's minimum threshold of 4 months of import cover, sufficient to finance at least 8.0 months of overall imports at the end of 2023. Official foreign reserves grew slowly by 0.7 percent in 2023 relative to a 0.8 percent growth in 2022. Sources of foreign reserves in 2023 were mainly from Government revenue from abroad, exports of goods and services and foreign income earned from residents abroad. Overall, imports were estimated to have grown by 22.4 percent in 2023 compared to 17.4 percent in 2022. As a result of the above

developments, months of import cover fell from 9.3 months at the end of 2022 to 8 months at end of 2023. This implied that the current level of overall foreign reserves at the end of 2023 was able to finance at least 8 months of overall imports in the foreseeable future.

Chart 4: Foreign Reserves



### 9. MONETARY POLICY IN 2023

The Reserve Bank had maintained an accommodative monetary policy for the last three years to ensure monetary conditions remained supportive of economic recovery, in light of a weak world economy under the COVID-19 pandemic conditions. This substantial shock, coupled with major cyclones, led to domestic output contraction in two consecutive years from 2019-2020 and loss of employment in a number of sectors particularly the tourism and related sectors. The domestic financial sector experienced growth in non-performing loans although they remained sound at the peak of the pandemic. The Reserve Bank’s

accommodative policy, up to the third quarter of 2023, included unconventional policy response through availing liquidity to the banking system through its disaster credit facility. However, the Reserve Bank gradually tightened its monetary policy, while keeping the policy rate unchanged, from the final quarter of 2023 as it sought to address the persistent rise in inflation during the three consecutive quarters of 2023.

Inflation remained the main policy challenge to achieving the Reserve Bank’s monetary policy objectives in 2023. During the March, June and the September quarters annual inflation recorded 11.2 percent, 14.1 percent and 12.1 respectively, consistently above the Reserve Bank’s inflation target band. Inflation is projected to remain above target at the end of 2023. The level of official reserves, remained adequate in 2023. In December, official reserves recorded VT71,234 million, sufficient to cover 8.2 months of projected imports.

During 2023, the Reserve Bank adopted the following policy measures as it sought to address high inflation and therefore ensure monetary stability over the near to medium term:

- Tightened open market operations (OMO) in October 2023. Through this policy measure, the Reserve Bank increased the volume of new RBV notes issued in the OMO from VT100 million per month to VT200 million per month, thereby mopping up, or tightening excess liquidity in the banking system.
- Approved a gradual increase in the Statutory Reserve Deposit (SRD) in December 2023 from 5.25 percent to 5.5 percent, up by 0.25 basis points. This policy measure locks away a portion of the deposits in the banking system at the Reserve Bank



and has the same effect of tightening liquidity in the banking system as in an OMO. This new policy measure will become effective from January 2024.

Other policy instruments remained unchanged as follows:

- The Reserve Bank policy rate remained unchanged at 2.25 percent.
- The Liquid Asset Ratio (LAR) was kept unchanged at 5.0 percent.
- The Capital Adequacy Ratio (CAR) was maintained at 10.0 percent.
- The Reserve Bank's Import Substitution and Export Finance Facility (ISEFF) and the Disaster Recovery Credit Facility (DRCF) remained active.

The Reserve Bank regularly monitors the international and domestic economic developments, to ensure that monetary policy remains appropriate to the changes in economic and financial conditions; and makes changes to its policy settings as and when appropriate to safeguard macroeconomic stability in Vanuatu.

# OFFICIAL FOREIGN RESERVES & EXCHANGE RATE MANAGEMENT

## Foreign Reserves Management

The Reserve Bank, (as mandated by the Reserve Bank of Vanuatu Act, oversees the management of the official foreign exchange reserves of Vanuatu. Foreign reserve management is a core function of the Reserve Bank to fulfil the primary objectives of safety, liquidity and profitability. To achieve these objectives, the Board Approved Investment Guidelines establish parameters for managing key risks including credit risk, interest rate risk, liquidity and exchange rate risks.

The Reserve Bank ensures an adequate level of foreign-exchange reserves is maintained at all times to meet Vanuatu's external obligations. The total foreign exchange reserves of the Reserve Bank continue to increase over the years. During the 2023 financial year, foreign exchange reserves increased by VT548 million, bringing it to another record level of VT74.98 billion. This level is sufficient to cover 8.0 months of Vanuatu's imports, well exceeding the 4.0-months minimum threshold.

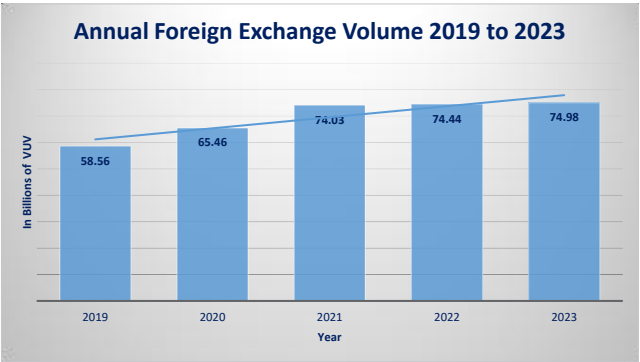
Throughout 2023, the Reserve Bank engaged in foreign exchange bought and sold deals. These deals are made with the Reserve Bank's key clients: the commercial banks in Vanuatu and the Government. These deals involved purchasing excess foreign exchange from the market and selling foreign exchange to address market shortfalls. In 2023, the Reserve Bank bought a total of VT 10.2 billion in foreign

exchange and sold VT10.3 billion, of which 50 percent involved Government loan repayments in foreign currencies.

However, despite the net sales mentioned during the period, the foreign reserves continued to show an upward trend as the exchange rates played a key role; the Vatu weakened against the USD & EUR, while it strengthened against the AUD & NZD. As part of its reserve management activities, the Reserve Bank also executed arbitrage deals (sell & buy) in the spot market on foreign currencies exchange to rebalance its books and manage currency risk effectively from a neutral stance.

At the outset of the financial year, the Board approved an annual risk budget for foreign reserve management amounting to VT 533.89 million, equivalent to 3.0 months of projected foreign exchange revenue for the year. Consistent with the preceding year, the Reserve Bank allocated the entire risk budget to interest rate risks while maintaining currency (exchange rate) risks close to zero, as the Reserve Bank continued to align its currency distribution close to its neutral position.

**Chart 5: Volume of Foreign Exchange Reserves**



Foreign reserve management is conducted internally. Major central banks tightened monetary policies in 2023, raising policy interest rates to high levels in order to contain inflation with significant impact on yields in global financial markets and as a result the Reserve Bank shifted its investments strategies to focus predominantly on short term money market instruments (commercial papers, negotiable certificate of deposits, treasury notes & bills, and fixed term deposits) and maintained only a few investments on marketable fixed income securities (Government, supranational and corporate bonds).

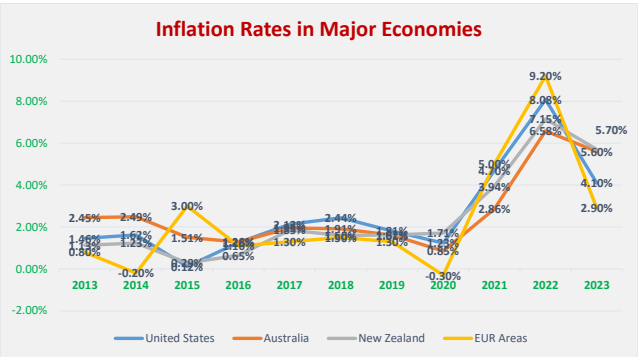
Management of reserves were managed across four core investment portfolios: US Dollar portfolio, Australian Dollar portfolio, New Zealand Dollar portfolio, and the Euro portfolio with smaller holdings in Pounds and Chinese Yuan.

Global economic recovery remained slow in 2023 since the Russia-Ukraine war in early 2022., and because of tighter monetary conditions. However, a slow-down in global

high inflation rates began in 2023 as major central banks kept official cash rates at peak levels. As a result, inflation rates in the United States, Australia, New Zealand, and Euro Areas decelerated from high levels although the rate of decline was divergent across regions (see graph below). Inflation rates peaked at an average of 7.75 percent across these countries in 2022 before contracting to an average of 4.58 percent in 2023.

Nonetheless, inflation has not fallen below the 2 percent target in any of these countries since 2021. New Zealand recorded the highest inflation rate at 5.70 percent at year end of 2023, followed by Australia at 5.60 percent. The United States experienced a high inflation rate of 8.08 percent in 2022 which declined to 4.10 percent in 2023. Meanwhile, inflation has almost declined to the target level at 2.90 percent in 2023, down from 9.20 percent in 2022.

**Chart 6 – Inflation Rates in Major Economies (US, AU, NZ, EUR)**



**Table 1 – Policy Rates in Major Central Banks**

Central Banks	2019	2020	2021	2022	2023
Federal Reserve Bank of US	1.75%	0.25%	0.25%	4.50%	5.50%
Reserve Bank of Australia	0.75%	0.10%	0.10%	3.10%	4.35%
Reserve Bank of New Zealand	1.00%	0.25%	0.75%	4.20%	5.50%
European Central Bank	0.00%	0.00%	0.00%	2.50%	4.50%
Bank of England	0.75%	0.10%	0.25%	3.50%	5.25%
Bank of Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%

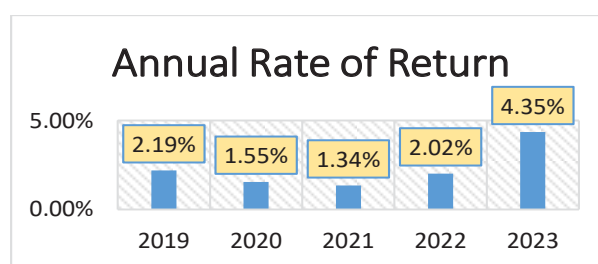
Major central banks undertook gradual monetary tightening from 2020, with the tempo of rate hikes more aggressive from 2022, bringing rates to a total average of 5.0 percent in 2023, with the exception of the Bank of Japan which kept its rates low at a negative -0.10 percent at end-2023.

### Investments Performance

The Reserve Bank refocussed its investment strategy by diverting a maximum portion of its portfolio to short term investments to take advantage of high deposit market interest rates. Accordingly, its bond holdings portfolio was reduced to 10 percent of total investment while short term investments were increased to 80 percent in 2023. The remaining 10 percent was maintained in cash. During 2023, foreign currencies short term investments were invested at interest rates ranging from 4 to 5 percent in the global markets. Interest income on the Reserve Bank's foreign currency investments more than doubled, reaching for the first time the amount of VT3,087 billion compared to VT1,355 billion in 2022. The Reserve Bank achieved an annual rate of return of 4.35 percent in 2023 based on an annual average level of investible reserves

of VT74 billion, compared to 2.02 percent in 2022, 1.34 percent in 2021, 1.55 percent in 2020, and 2.19 percent in 2019.

**Chart 7 – Rate of Return on Investments**



The Reserve Bank allocated all its risk budget to interest rate risks while maintaining the currency (exchange rate) risks close to zero. To manage exchange rate volatility and currency risks, the Reserve Bank continued with aligning its currency allocation with its neutral position. Regular currency hedging was carried out throughout the year to prevent large deviations from the neutral position, from foreign exchange inflows and outflows, with an approved deviation benchmark of 3.0 percent.

### Vatu Exchange Rate

The Reserve Bank sets the Vatu exchange rate on a daily basis, in line with its pegged exchange rate regime, and communicates indicative exchange rates to its main customers each morning, before 9.00 am, and published in the Reserve Bank website.

The Vatu exchange rate is pegged to an undisclosed basket of foreign currencies. Hence, the movements in the Vatu exchange rate mirrored the bilateral movements between the major currencies, which are in turn, driven by developments in global financial markets. During the financial year,

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Table 2. Month-end Average Rate of the Vatu Currency

Month	USD	JPY	NZD	GBP	AUD	EUR	CAD	CNY	SDR
January	116.83	0.89	74.06	141.60	80.46	124.80	86.27	17.05	145.27
February	116.29	0.88	73.37	140.74	80.43	124.72	86.62	17.04	145.44
March	118.37	0.89	73.42	143.68	78.83	126.76	86.47	17.17	148.31
April	117.90	0.88	73.23	146.61	78.94	129.16	87.42	17.13	150.06
May	118.33	0.86	73.58	147.67	78.66	128.64	88.48	17.01	158.69
June	118.14	0.84	72.41	149.13	79.25	128.01	88.83	16.51	156.89
July	117.43	0.83	73.16	151.27	79.14	129.78	88.85	16.32	149.74
August	120.03	0.83	75.62	152.56	77.67	130.99	89.14	16.57	151.92
September	121.06	0.82	71.70	150.22	77.74	129.36	89.43	16.60	151.61
October	121.79	0.81	71.98	148.28	77.37	128.66	88.95	16.67	151.58
November	120.13	0.80	71.99	149.32	78.03	130.04	87.61	16.65	150.81
December	118.11	0.82	73.33	149.41	78.86	128.74	87.85	16.54	149.54

the Vatu strengthened against the Japanese Yen, New Zealand Dollar, Australian Dollar, and the Chinese Yuan and weakened against the US Dollar, British Pound Sterling, Euro, and Canadian Dollar (Table 2).

# CURRENCY OPERATION

*Mission: Meet the currency needs of the public.*

The Reserve Bank mission of meeting the currency needs of the public was fully met in 2023. It continued its statutory function as the sole issuer of the Vatu currency in 2023 in accordance with section 17 of the Reserve Bank Act [Cap 125]. This function required that it maintained the quality of Vatu in circulation and the withdrawal of unfit paper banknotes and the demonetized coin series from public circulation.

## Notes and coins in circulation

As part of its ongoing currency operations, the Reserve Bank warrants that banknotes and coins in public circulation remain in good quality by working closely with commercial banks to ensure the fitness level of the Vatu currency. In 2023, a total of VT1,431 million worth of notes and coins were withdrawn as unfit from public circulation while VT2,700 million worth of new cash were injected into circulation.

The Reserve Bank continued to exchange and pay good value for the demonetized Vatu coins and the VT100 paper notes and encourages the public with any of these old notes or coins to present them at the Reserve Bank or any of the commercial banks in exchange for legal tender cash.

## Counter Transactions

Counter transactions showed an annual increase of 11 percent to VT37,746 million in 2023, lifting total currency in public circulation by VT1,078 million to a record high of VT19,610 million, from 18,532 million in the previous year.

Looking at the currency in circulation by denominations, the VT5,000 and VT10,000 notes maintained their lead position as the highest value denominations in public circulation at 43.5 percent and 18.4 percent, respectively.

**Table 3 : Counter Transactions in Million Vatu**

Period (Year)	Issues	Withdrawals
2007	4,576	5,311
2008	5,501	5,772
2009	5,425	5,636
2010	5,373	5,836
2011	5,960	6,676

2012	6,956	7,458
2013	6,699	8,039
2014	7,150	7,941
2015	7,355	8,329
2016	8,344	9,069
2017	10,495	11,784
2018	12,224	13,232
2019	15,136	14,137
2020	15,547	14,115
2021	15,625	14,266
2022	18,910	14,864
2023	19,523	18,223



## Counterfeits

One of the main advantages in support of the change over from paper base banknotes to polymer was the unique characteristics of the polymer substrate, which acts as a security feature in itself to safeguard the Vatu notes from counterfeiting challenges.

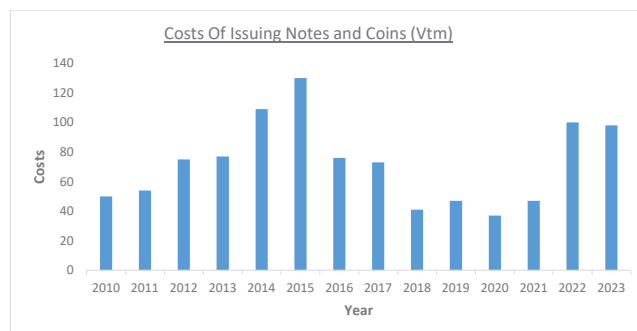
The Reserve Bank continued in its public awareness and advice on the risks of currency counterfeit and the need to be vigilant at all times to safeguard the quality and integrity of their Vatu currency.

It is a criminal offence under the Reserve Bank of Vanuatu Act [CAP 125] to reproduce Vatu banknotes or be in possession of their reproductions as perpetrators may be prosecuted by law.

## Costs of Issuing Notes and Coins

The cost of currency issued during the year ending December 31, 2023 decreased by a slight 2.0 percent from the previous year but maintained an upward trend from prior years' costs. This trend reflected a higher demand for replacement of cancelled polymer notes and the high cost associated with the coin's stock replenishment. The upward spike reflected the cost of injecting new polymer notes into circulation. The downward trend, since the release of new polymer notes in 2014 and the new coin series in 2015, reflected the longer durability of polymer notes and fewer replacement, thereby increasing costs savings by the Reserve Bank.

## Chart 8 : Cost of Issuing Notes and Coins



## Numismatics

The Reserve Bank's numismatic operation continued to be coordinated through the Numismatic Business Centre for interested customers who called in at the Reserve Bank premises. Information on collectible items can from the international sales of commemorative coin proof sets through signed agreements and contracts with renowned international mints. Numismatic income totalled VT3.9 million for the year ended 2023.

The Reserve Bank acknowledges and encourages the growing interests in its numismatic items from local collectors.

# FINANCIAL SYSTEM REGULATION & DEVELOPMENT

Financial system regulation and supervision remains one of the core functions of the Reserve Bank, ensuring safety and soundness of the supervised/regulated financial institutions operation, in pursuit of financial stability. The regulatory and supervisory function is undertaken through the Financial Regulation Department which consist of Banking Supervision Unit, Insurance Supervision Unit and Other Financial Institutions Supervision Unit.

2023 was marked by continued recoveries in major domestic economic sectors following the lifting of COVID-19 related international boarder restrictions by the Government of Vanuatu in July 2022. This has positively impacted majority of financial institutions performance compared to 2022.

During the financial year, the Reserve Bank maintained enhanced off-site monitoring of financial institutions' risk profiles and given reduced COVID-19 risk; on-site consultations and examinations were reactivated. Both off-site and on-site supervisory activities are conducted within the Risk Based Supervision Framework focusing on key risks that financial institutions are exposed to including compliance to AML/CTF prudential requirements.

Reserve Bank as a member of Supervisory Working Group (SWG) has commenced review of National Risk Assessment for Vanuatu's financial sector in 2023 - to be continued in 2024.

Work on strengthening the Risk Base Supervision Framework of the Reserve Bank has continued in 2023 through technical assistance provided by Pacific Financial Technical Assistance Centre (PFTAC). This includes the updating of majority of existing prudential guidelines for domestic banking in line with proportionate implementation of BASEL III requirements, IFRS 9 and other International Best Practices. Once completed these guidelines will be issued as Prudential Standards instead of Guidelines. A few new Standards will also be issued. In addition, new Prudential Returns and Instructions were reviewed to reflect the Prudential Standards to be issued going forward after consultation with the domestic banking sector and key stakeholders. Risks analysis trainings were also conducted to all RBV Financial Supervisors by PFTAC.

## **i. Banking Industry**

The Reserve Bank supervises/regulates 5 domestic banks and 10 international banks.

All international banks have physical presence in Vanuatu, nevertheless deals only with non-residence through respective correspondent banks located offshore. During the financial year all banks were operating within the regulatory requirements of the Reserve Bank.

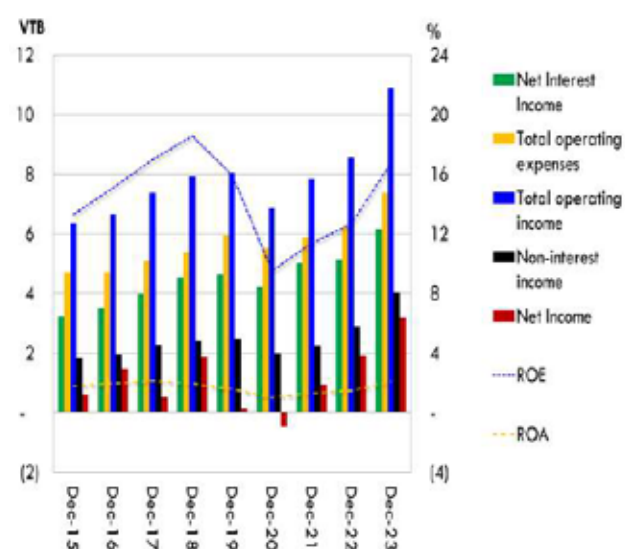
The domestic banking industry registered notable recovery at the end of the financial year being well capitalized despite increased in total risk weighted assets. Total earnings significantly inclined compared to previous year and exceeding pre-COVID period results. The liquidity remained high as indicated in banks recording liquid assets ratio (LAR) well above the minimum requirement. However, the quality of the banks' lending book remains a concern due to higher than expected level of non-performing assets which also increased substantially over the year. Despite high levels of non-performing loans, majority of the industry's loans and advances are performing. Banks continue to accumulate general provisions to prepare for future unforeseen deterioration in assets during the year. In addition, specific provisions for identified credit losses continued to increase.

The challenges of de-risking as well as EU's black listing of Vanuatu remains in 2023, resulting in difficulty of banks establishing new correspondent relationships. Furthermore, existing correspondent relationships are maintained at relatively higher cost as well as tighter due diligence processes.

The Reserve Bank continues to receive enquiries for both domestic and international banking license in 2023.

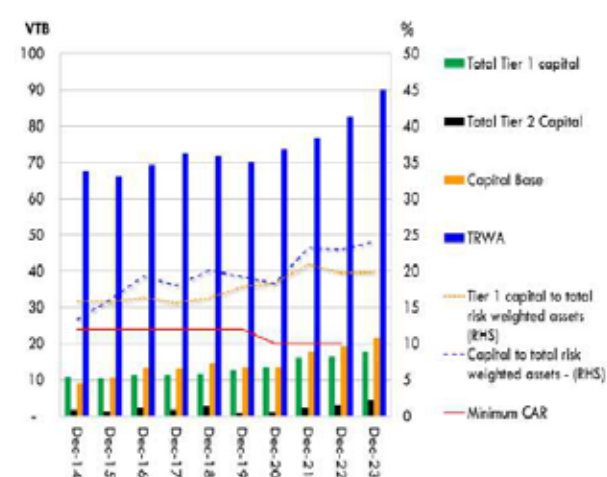
**Chart 9: Earnings – Domestic Banks**

(Levels, Billions of Vatu)



**Chart 10 : Capital Adequacy & Tier 1 Ratio**

(Levels, Billions of Vatu)



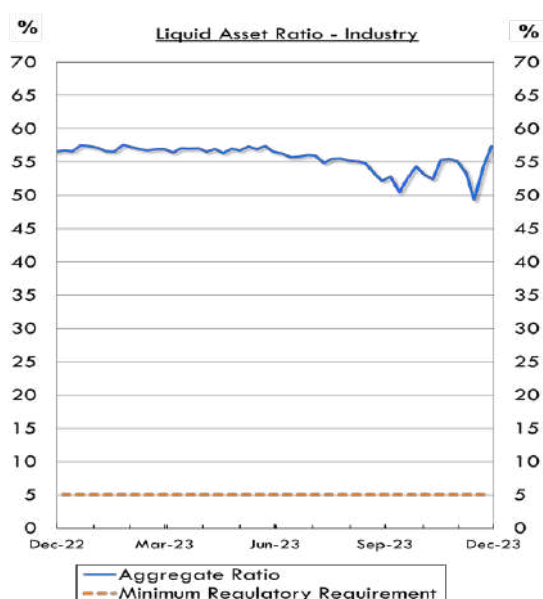
**Chart 11 : Asset Quality – Domestic Banks**

(Share of Total Loans, By Loan Category)



**Chart 12 : Liquid asset ratio –Domestic Banks**

(Percentage of total assets)



## ii. Other Financial Institutions Sector

This category includes the Vanuatu National Provident Fund (VNPF), Credit Corporation Vanuatu Limited (CCVL), the Credit Unions, Vanuatu Rural Development Bank (VRDB) and Electronic Money and Payment Service Providers.

VNPF continues to operate as per the current VNPF Act. In terms of supervisory concerns, two of the most significant risks are gaps in legislation and supervisory framework, and investment risk. These key risks, amongst others, were also identified in the Commission of Inquiry (COI) in 2016 and the Regulatory Task Force (RTF) in 2017. Recommendations proposed in the COI & RTF reports are yet to be fully implemented by the VNPF.

The VNPF Board in response to the State of Emergency declared by the Vanuatu Government due to the aftermath of Tropical Cyclones Kevin & Judy which hit the country on the 1<sup>st</sup> & 3<sup>rd</sup> of March this

year 2023, approved 30 percent partial withdrawal on member's Investment and Medi-Save accounts to assist members in the recovery process. Thus, an emergency payout of VT1.2 billion was paid by the Fund during the year.

VNPF is still managed by an Acting General Manager who is also the new Deputy General Manager, Mr. Richard Edwin, who was appointed due to the resignation of Mr. Parmod Achary following the Supreme Court decision of 16 June 2023.

Overall, the financial position and performance of the Fund continues to remain strong and healthy over the period.

CCVL continues to operate within statutory obligations though, credit risk remains a challenge. The non-performing loans of the institution has improved significantly over the year showing an annual decline of 67.6 percent compared to 40.6 percent reported at the end of 2022. This improvement was made through joint efforts of both the outgoing Country Head, Mr. Mohammed Nawaz and his replacement, Mr. Nitya Nitesh Nand who joined CCVL in April 2023. CCVL continue to grow its lending book over the year due to increase economic activities in the country. The Reserve Bank undertook a full scope on-site examination on CCVL in March 2023 as part of its supervisory activities.

The Credit Union industry, comprising of only three actively operating unions, remain the smallest financial institutions sector that are supervised by the Reserve Bank, yet are considered as very important in addressing financial inclusion. The Reserve Bank continues to work with the credit unions in ensuring the safety and soundness of the credit unions including

compliance with regulatory requirements. The work on Credit Union bill undertaken by the Reserve Bank including the draft Prudential Standards has been completed. The draft bill is yet to be tabled in Parliament.

Vanuatu Rural Development Bank (VRDB) formerly known as Vanuatu Agriculture Development Bank (VADB) is currently oversighted by a new Board of directors and managed by an Officer in Charge, Mr. Webster Bule after the release of the former Administrator, Pacific Advisory, in early January 2023. An On-site Examination was undertaken by the Reserve Bank in July 2023 on VRDB, targeting credit risk. Credit risk remains a key risk for the bank given the nature of its business.

As part of Vanuatu's financial inclusion strategy and its accommodative stance on innovation and as per the new National Payment System Act (NPSA), the Reserve Bank continues to monitor and follow up on the progress of the conditions of licenses issued to two payment service providers under the NPSA including two other Mobile Network Operators (MNOs) which were both previously issued with Non- Objection Letters by the RBV.

### **iii. Insurance Sector**

The Insurance Industry continues to be well capitalized despite the challenges of the increasing losses, caused by volatile weather patterns leading to frequency in tropical cyclones and other disastrous calamities. During the reporting year, the insurable losses caused by the twin tropical cyclones in early march was recorded at approximately VT1.3 billion. The insurers continue to be selective in their overall risk appetite due to the continuous catastrophic weather patterns and the subsequent high reinsurance costs globally.

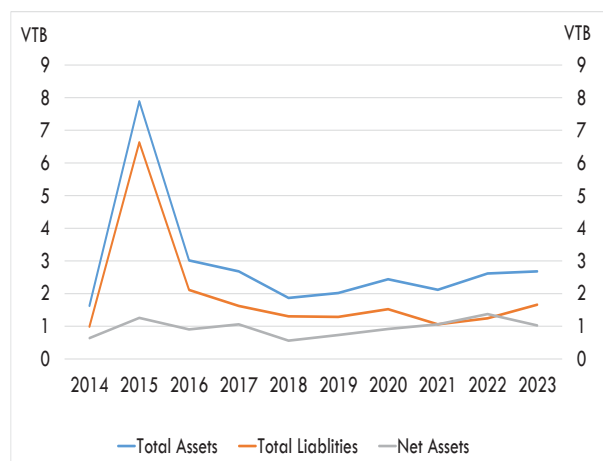
This year saw two major players announcing their exit from the market through sale and purchase of shares arrangement with two PNG companies. However, the sector continues to garner interest from both domestic and offshore applications in entering the market.

Onsite surveillance will commence in 2024 following new licenses issued and company acquisitions in the market. Prudential consultations continue to be held frequently with the main players within the market.

The Insurance industry comprised of four local insurance companies, two external insurers, one re-insurer, four international insurers, seven captives, five brokers, four insurance managers and nine agents. Three license applications were being assessed comprising two insurance agents and one general insurer.

The domestic industry maintained a sound financial position throughout the year, reporting growth in few classes of business.

**Chart 13 : Financial Position**



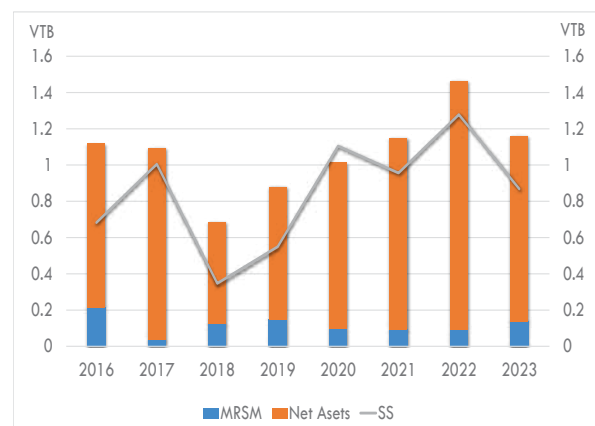
The admissible asset position for domestic insurance industry increased by 5 percent to VT2.7 billion compared to previous year at VT2.6. This was driven by a significant increase in reinsurance recoveries by 151 percent given the ongoing claims settlement from the reported losses by twin tropical cyclones during the reporting year. Other items which had reported increases are premium receivable net of provision for doubtful debt by 43 percent and in other assets which comprises prepayments and provisioning for policy cancellations. In comparison, the cash on hand and on deposits declined by 12 percent, underpinned by the ongoing settlement of claims.

The total liabilities recorded a decline by 30 percent to VT1.7 billion compared to VT2.2 billion in the previous year. This stems from reduction in Amounts due to related parties by 53 percent compared to previous year and another decline in IBNR by 30 percent.

Over the year ended 31 December 2023, the total industry surplus (admissible assets) reduced by 25 percent to VT1.02 billion compared to VT1.3 billion recorded in 2022. Required Minimum Solvency in comparison increased by 72 percent to VT139 million. The solvency surplus position (after deduction of the minimum required solvency margin) declined by 36 percent to VT856 million compared to VT1.3 billion recorded in the preceding year.

**Chart 14 : Minimum Required Solvency Margin (MRSM) & Surplus Solvency (SS)**

**(Levels, Billions of Vatu)**

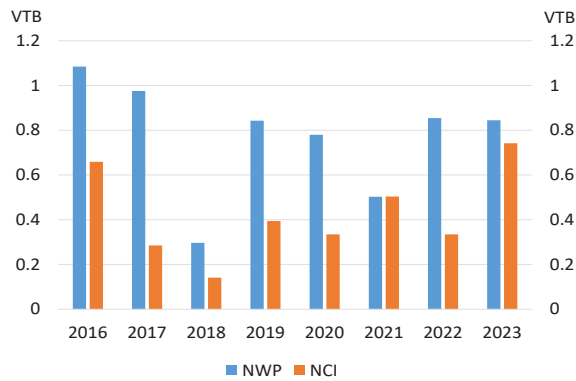




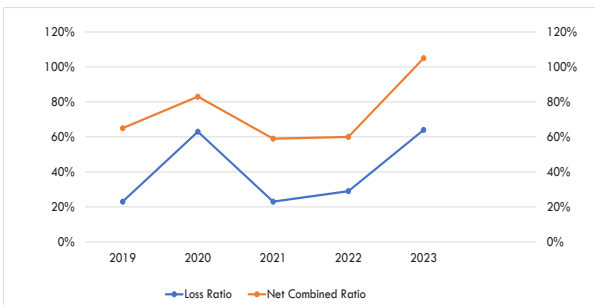
The industry recorded Net Written Premium at VT955 million in December 2023, signifying an increase of 17 percent compared to VT854 million in the previous year. The increase reflects growth in gross premium over the year including any reinsurance assumed with the total risks underwritten. Net Claims Incurred increased by 136 percent to VT790 million compared to VT334 million recorded in the previous year. Net claims comprises outstanding claims & paid claims during the reporting period.

**Chart 15 : Net Premium & Net Claims Incurred**

(Levels, Millions of Vatu)



**Chart 16: Industry Loss Ratio & Net Combined Ratio**



Loss and net combined ratios were recorded at highest over the five-year period at 64 percent and 105 percent, respectively. This

represents a percentage increase of 121 percent and 75 percent from 2022 respectively. The net combined ratio is comprised of loss ratio and underwriting & management expense ratio. The increase in loss and combined ratios are both driven by increase in net claims over the year in the following class of business: Fire, Household, Workers Compensation, Motor and Medical. Household and Fire recorded the highest losses over the year compared to other lines of business.

As at end of December 2023, underwriting results recorded an increase of 5 percent to VT1.5 billion compared to previous year at VT1.4 billion. This was contributed by the increased premiums in several classes of business such as commercial fire & property, by 2 percent, domestic householders by 4 percent, motor vehicles by 5 percent, liability classes and the introduction of a new parametric cyclone product which was later pulled out of the market during the same reporting year.

The total premiums ceded offshore during the reporting year was recorded at VT253 million, an increase of 4 percent from the previous year.

Commercial lines continue to depict highest gross premium at VT1.1 billion compared to personal lines recording total gross premium at VT478 million. The commercial lines comprise corporate risks such as Fire/Property, Industrial Special Risk (ISR), Material Damage, General Accident, third party Motor vehicle, Marine, Workers Compensation and Liability risks. Personal lines on the other hand comprises Home & Contents, Personal Accident, Medical, Private Motor, Term life and Funeral

The insurance sector performance continues to be challenged by the volatile climatic conditions causing frequency in natural



disasters. This will eventually lead to increase in premium as insurers try to build larger reserves necessary to cover for future losses.

The successful pilot phase of the parametric cyclone product launched in October 2022 by a local insurer discontinued in 2023. It was the only issuer of the product in the market. The product objective was designed to provide quick payouts to people in the rural communities in the aftermath of tropical cyclones. While the demand for this product or similar scheme exists in the market, there is no positive indication to continue with the product.

#### **iv. Other Developments**

##### *Comprehensive Credit Reporting*

Vanuatu needs to adopt global best practice of the existing credit reporting ecosystem. So it needs to expand and build upon the current system of “negative only” credit reporting by supporting the introduction of “comprehensive credit reporting”.

The existing credit reporting system exclusively relies on the collection of data pertaining to the non-payment of accounts, specifically negative data. Preliminary work on required legislation has commenced on additional payment history data needs to be gathered and that mandatory participation by RBV regulated entities be mandated.

The Reserve Bank together with IFC undertook the final round of consultations with local stakeholders and incorporated their feedback and recommendations into the draft Regulations.

# HUMAN RESOURCES

## DEVELOPMENT IN 2023

### **Recruitments & Promotions**

The Reserve Bank employed seven (7) new staff in 2023, increasing the total number of staff to 98. The Reserve Bank continued to advocate for equal employment opportunities to all citizens with a gender composition of 56 males and 42 females in 2023. The Governor's Office recruited two (2) new staff: Anti Money Laundering & Reporting Officer, and a new Executive Secretary; the Economic and Research Department welcomed a (1) new front office Secretary, while the Financial Markets Department recruited a (1) Financial Analyst to its External Markets Unit. The Department of Support Services recruited three (3) new staff: a (1) Maintenance Officer, an (1) ICT Officer and a (1) Property & Assets Officer.

The Reserve Bank promoted one (1) staff, a Financial Inclusion Analyst to Financial Inclusion Manager in the second quarter of 2023.

### **Resignation/Expiration of Employment Contracts**

In 2023, three (3) senior management staff relinquished duties from the Reserve Bank: two particularly due the outcome of the recent RBV Amendment Act, and the departure of the former Governor whose contract ended in November 2023.

Furthermore, three terminations occurred during the course of the year and a long-time serving staff member passed away at the end of the year.

### **Staff Development**

Staff of the Reserve Bank benefited from attending in-person trainings and official travel overseas following the re-opening of borders in 2022. The Governor and the Deputy Governor were able to attend Reserve Bank official meetings overseas. Similarly, staff benefited from participating in mandatory trainings, virtually and in-house, with providers such as the International Monetary Fund (IMF), World Bank (WB), Pacific Financial Technical Assistance Centre (PFTAC) and other central bank training facilities for capacity building.

### **Staff Counselling**

In line with the Reserve Bank's mission to recruit, retain and develop professionals, the Human Resources Office (HR) continued to provide counselling sessions to newly recruited and existing staff personnel. The positive feedback from these sessions have been mutually motivating for staff and the HR Office and created a space for feedback and in promoting an inclusive work culture.

### **Study Leave**

The Reserve Bank looks forward to the return of a staff under a Master's Program in March 2024. While no staff pursued long term studies in 2023, a few undertook a

range of courses offered at the University of the South Pacific, (Emalus Campus). The Reserve Bank supports and encourages its staff to pursue further studies including at tertiary level to harness and develop technical and specialized skills that enables staff to contribute positively in achieving its prime objectives.

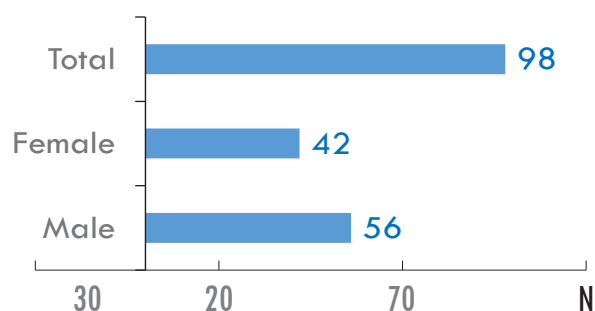
### **Student Attachment/Internship Program**

The Reserve Bank continues to support students who seek practical work experience over the school holiday periods. This year 15 students undertook practical work experiences over the school holiday period, comprising of two weeks' interval from December 2023 to January 2024. The Reserve Bank also hosted a few students for internship placements with its Economic and Research Department to fulfil school curriculum requirements and credit scores.

### **Occupational Health and Safety**

The Reserve Bank continues to advocate for a safe and conducive workplace for its staff, in-house tenants, and customers which contributes to increased productivity, cost savings, and maintaining its integrity and reputation to the public.

**Chart 17: Composition of RBV Staff 2023**

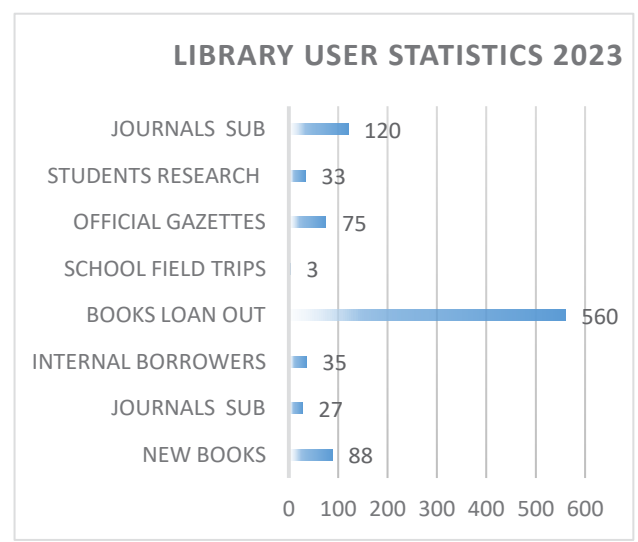


Source: Human

# FRANKLIN KERE LIBRARY ENGAGEMENTS

In 2023, Reserve Bank Kere Library achieved remarkable success aligning its planned activities and services with national, regional, and international commitments. Despite facing two category four cyclones early in the year, the library’s robust cyclone preparedness plan ensured minimal disruption, allowing its services to operate seamlessly throughout the year without any significant damage or slowdown.

Chart 18 : Library User Statistics



The graph above indicates the total number of services provided by the library throughout 2023. During this period, the library expanded its book collection by acquiring 88 new titles. Additionally, there was a notable increase in school students utilizing the library for academic projects and researches during the academic year as well as an increase in school field trips from different schools across the country.

Furthermore, there was an uptick in staff borrowing books and requests for services such as scanning, photocopying, binding, laminating and printing resources for



Students research project visits talking with Economist Rodrigue Saul.

awareness’s campaigns, end of year staff award Certificates, Archives & Record searches and retrievals: and Official Gazettes.

The Library’s small Museum continued to thrive and this year an intriguing addition was made through the purchase of a rare collection from a local client, the old Australian florins and shillings. These unique pieces were sourced from individuals who have those in their possession and is a reflection of the historical significance in the context of Banking and Currency in Vanuatu (New Hebrides).

These antique currency notes and coins can now be acquired, deposited and safely

Exhibitions often serve as gateways to information for general public. During the past year, a major open and free exhibition was organized to commemorate and celebrate the life and passing of the late Queen Elizabeth II. at the Exhibition offered a retrospective on the Queen and her Royal Families visit to Vanuatu

### i. Library Gallery, Museum and Exhibition

Displayed in a locked glass cases at the Bank's Museum where they can be appreciated for their historical values by present and future generations Each item deposited at the Museum holds its own fascinating story.

(New Hebrides) back in 1974. The exhibition showcased 7 Royal visits including one of the Queen's visit with her family and accompanied by her Husband, the late Prince Philip aboard their HMY Britannia, (Royal Majesty's Yacht Britannia). Additionally there were 6 visits by other members of the Royal family and their cousins.



Vanuatu (New Hebrides) took part in both World War I and II as part of the Pacific War.

In collaboration with the French Embassy, a permanent exhibition collection was established to coincide with the visit of the current President of France, Monsieur Emmanuel Macron last year 2023. The second exhibition portrayed the visit of then President of France, General Charles de Gaulle, to the New Hebrides, in 1956.

These historical exhibitions are always significant occasions often marked by important ceremonies held at the war memorial stone directly in front of the Reserve Bank building. It is remarkable to observe that the nation of Vanuatu (New Hebrides) took part in both World War I and II as part of the Pacific War.

### ii. Participation in the community

Throughout the year, Reserve Bank staff remained actively engaged in contributing to the knowledge empowerment of rural community, raising awareness's and disseminating important information. Events such as the FIU EXPO (Financial Inclusion Unit Exposition) in Luganville, Santo and Agriculture Week in Lakatoro, Malekula were among the significant occasions that involved the Bank's Library.

### iii. School Visits and Education

Reserve Bank through the Library facilitated school visits as part of educational excursions, enriching students' practical learning experiences while also raising awareness about the Bank's roles and functions to a wider audience. Throughout the year, the Library welcomed visits from Kawenu Primary School, Onesua Presbyterian College and Makira Primary School.

## **15. Property and Asset Developments in 2023**

Throughout 2023, the Reserve Bank undertook significant maintenance and improvement projects to enhance the safety and functionality of its properties, ensuring a conducive work environment for its staff and visitors.

### **i. Building Maintenance and Upgrades**

Several maintenance projects were completed, including the re-glazing of cracked glass on Levels 6 and 3 of the Reserve Bank's main building. This initiative addressed safety concerns and improved aesthetics.

### **ii. Infrastructure Resilience**

The Reserve Bank responded swiftly to the impact of Tropical Cyclones Kevin and Judy in March 2023, which caused minor damages. Immediate mitigation measures were taken, including clean-up operations. Insurance coverage assisted in addressing certain damages, while the Reserve Bank managed uncovered aspects independently.

### **iii. Operational Enhancements**

To maintain operational continuity, critical systems such as standby air conditioning in the conference room were installed due to increased room hire and central AC system outages.

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### **iv. Infrastructure Expansion**

The Reserve Bank initiated renovation and design efforts for both existing and proposed structures, engaging Mainguy Consulting Engineer and Kramer Ausenco Vanuatu. These ongoing projects aim to optimize operational efficiency and accommodate growing operational needs.

### **v. Infrastructure Maintenance**

Essential services like plumbing underwent overhauls to address water leakages, ensuring uninterrupted water supply to the RBV building. Additionally, pumps were serviced, and damaged fire system components were replaced to uphold building safety standards.

### **vi. Facility Adaptations**

The Reserve Bank adapted to evolving needs, relocating and modifying areas within its properties. Identified works include modifying storage rooms to accommodate staff expansion and operational demands.

### **vii. Upcoming Initiatives**

Approvals have been secured for repair and material orders, including roller shutter replacements for the old and new buildings.



# INFORMATION AND COMMUNICATIONS TECHNOLOGY

The Reserve Bank places great importance on Information and Communications Technology (ICT), ensuring that the key systems and processes that support the operations of the Reserve Bank continue without interruption. The Reserve Bank engages annually an independent external auditor to vet its systems, policies and ICT processes. To promote resilience, the Reserve Bank ensures that internal ICT policies are enforced and reviewed according to ICT standard practices. Similarly, the Reserve Bank operates a fully functional disaster recovery site to accommodate the Bank's overall Business Continuity Plans (BCP). To date, the Reserve Bank's core operations have been simulated from this site and areas of improvement have been noted for redress and correction.

Network and data security for the Reserve Bank is vital and the ICT team continues to ensure that this is maintained and managed efficiently. As part of its ongoing operations, the ICT Unit is responsible for managing day-to-day network services, network and data security, update services, data storage, email services, backup services and maintaining the core banking systems including the National Payment System. The unit also maintains and updating the Reserve Bank's official website, ecommerce site and social media pages.

In response to continued cyber threats and vulnerability assessments, most of the Reserve Bank's core systems and network have undergone security audits. And as per policies, they are required to be attested annually in compliance with international ICT security standards.

## Going forward

In strengthening the Reserve Bank's business continuity plan, the ICT Unit is progressively implementing its disaster recovery policy. This approach is being taken seriously given the recent experiences with increased and ongoing cyber-attacks on the various ICT infrastructures. Furthermore, with the changing corporate landscape, the Reserve Bank has shifted some of its focus into secure cloud service providers and likewise technical resources will be sought from qualified service providers whenever required. Overall, the Reserve Bank will continue to review its ICT plans and policies in correlation with its overall strategic plan.