RESERVE BANK OF VANUATU

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Press Release

MONETARY POLICY STATEMENT BY THE GOVERNOR OF THE RESERVE BANK OF VANUATU MARCH 30, 2010

The following statement by Odo Tevi, Governor of the Reserve Bank of Vanuatu, was made in conjunction with the Bank's March 2010 Monetary Policy Statement, which has been released on the Bank's website and is soon to be released in booklet form.

The outlook for the global economy has continued to improve since the September 2009 Monetary Policy Statement, although projections are for very different growth trajectories between advanced and emerging economies. The inevitable withdrawal of stimulus measures as prospects improve has come to be the key monetary policy challenge facing central banks across the world. Growth projections for most advanced economies remain modest, with financial sectors still vulnerable despite extensive government intervention. However, emerging economies that did not share the same exposure to volatile derivatives markets have begun a much more robust expansionary cycle. The Chinese economy in particular is expected to grow 9.5 percent in 2010, pushing up demand for commodities and driving a recovery in world trade. Projections for the world economy are increasingly optimistic, with the IMF successively increasing their expectations for growth, whilst simultaneously reducing estimates of the size of the contraction experienced in 2009.

Vanuatu's economy has been resilient through the global downturn, with estimated growth of 3.8 percent in 2009, and is expected to remain strong into 2010 with the growth expected to increase slightly above 4.0 percent. During 2009, the tourism sector played an important role in supporting economic growth and is expected to provide crucial economic support going forward, although it will face a number of challenges, not least of which is a return to long haul destination as global conditions continue to improve. In 2009 Vanuatu was a favoured destination for short haul travel as tourists switched from long haul travel. Donor support has underpinned strong contributions to growth from the construction sector in 2009, and expectations are that increased transfers will continue to support growth in the sector in 2010. Downside risks to the optimistic domestic outlook include the potential softening of demand shown in some partial indicators in the first months of the year, increasing imported inflation as a result of higher commodity prices, and the possibility that the very rapid expansion of domestic credit could result in an increase in the proportion of non-performing loans in the banking sector. That said, the growth in private sector credit has slowed and high quality loans make up 90 percent of portfolios.

Foreign exchange reserves have remained comfortably above the Reserve Bank's minimum comfortable threshold of four months of import cover since the previous monetary policy statement and are expected to remain in excess of the minimum threshold throughout 2010, having reached 5.9 months in December 2009. Year-ended inflation has been trending downwards since the second quarter of 2009, although it is expected to spike in the first quarter of the year as a result of the recent increase in excise taxes and to experience further upward pressure as the cost of imports rises.

The Reserve Bank and Government of Vanuatu together remain well positioned to respond to threats to Vanuatu's economy, with ample scope to respond to events through fiscal and monetary policy. The government's fiscal position has remained sound, after recording another successive surplus in 2009, and continues to have the capacity to borrow should it be deemed appropriate. The Bank will continue to monitor domestic and international developments and stands ready to respond to ensure that the key objective of macroeconomic stability is achieved.

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March 30, 2010