



RESERVE BANK OF VANUATU

PRESS RELEASE

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THE RESERVE BANK OF VANUATU REDUCES ITS POLICY INTEREST RATE

The Reserve Bank of Vanuatu's (RBV) Board of Directors reduced the RBV's policy interest rate to 2.25 percent from 2.90 percent following the Bank's assessment of the impact of COVID-19 pandemic on Vanuatu's economy and RBV's monetary policy settings. The Board also undertook additional policy measures during its meetings on March 27th and March 30th, 2020. The RBV's twin policy objectives seek to maintain domestic inflation within a target range of 0-4 percent, and official foreign exchange reserves above a minimum threshold of 4.0 months of import cover. The Board is confident that the Reserve Bank will achieve its monetary policy objectives over the medium term.

The Board noted that a reduction of the Bank's policy interest rate is appropriate in the light of the impact of COVID-19 on the domestic economy. Following the World Health Organization's (WHO) declaration of COVID-19 as a pandemic, a weakening in the global economy has become pronounced with the risks to the Vanuatu economy more elevated. Estimates of world economic growth for 2020 by the IMF were revised downwards to 3.3 percent in January prior to the current stage of the pandemic.

The full impact of COVID-19 on the domestic economy is still difficult to assess at this stage due to the uncertainties concerning the extent and duration both in Vanuatu and the rest of the world. Preliminary assessments conducted in March 2020 showed that it will have a significant impact on economic output and employment in Vanuatu. The impact is likely to be significant as COVID-19 advances from the preventative to a more elevated stage. Growth could fall from a pre-COVID-19 forecast of 3.8 percent, to around 1 percent in 2020 without countervailing policy measures, and recover to a relatively higher growth from 2021. The tourism sector, which is significant, has been the most affected and this could lead to a contraction of the important services sector of the economy in 2020. The agriculture, fishing and forestry sector and the industry sector appear to be less affected at the moment.

Several factors have helped mitigate the impact of the COVID-19 pandemic in Vanuatu. The Government's fiscal position has improved over the years, and sufficient fiscal buffers have been maintained. Monetary conditions remained supportive of growth. The domestic banking system liquidity are at elevated levels, and commercial banks' asset quality remained healthy with standard loans dominating the total loan portfolios. Official foreign reserves are sufficient to cover around 13 months of the country's goods and services imports in February 2020 and will remain sufficient over the medium term. Inflation has remained within the Bank's target range of 0-4 percent, registering 2.9 percent in September 2019.

However, the Board recognized that significant challenges have emerged with growing uncertainties and risks around weaker global economic conditions and slowing in the pace of global growth following the COVID-19 outbreak. Global financial and equity markets have weakened and major central banks have relaxed monetary policy further. Domestically, economic output is projected to weaken substantially, and private sector credit growth continued to register a tepid growth. Against this backdrop, the Board judged that a further reduction in the Reserve Bank's policy interest rates is appropriate to help steer the economy away from further weakening. The reduction in the Reserve Bank's policy interest rate is effective from March 27th, 2020.

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