



RESERVE BANK OF VANUATU

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Turbulence in Global Financial Markets

Global financial market turbulence, which began in the US, has spread to other economies including Europe, Asia, South America, Australia and New Zealand. Further adverse developments in the international financial markets were experienced in September and are continuing. As a result financial failures have been experienced in major financial institutions in several industrial countries, accompanied by interruption in inter-bank markets and falls in share prices in major world stock markets. Co-ordinated policy actions in a number of countries have been aimed at restoring stability, through providing short-term liquidity to financial institutions, monetary policy relaxation, purchasing troubled assets, directly investing in financial institutions and guaranteeing bank deposits.

Following some concerns by sectors of our community on the impact of the crisis on Vanuatu, and in addition to the Reserve Bank of Vanuatu Governor's televised address, the Deputy Governor of the Reserve Bank of Vanuatu, Mr. Peter Tari Merakali issued the following statement:

“The global financial market turbulence is still unfolding and it is difficult to assess what the full impact will be on the Vanuatu economy at this stage. The extent to which the domestic economy will be affected depends on the inter-linkages between the Vanuatu economy and the rest of the world. The fact that the linkages are not as strong as in some other countries will itself help in cushioning the impact of the crisis.

It is quite probable that the global slow down especially if it takes place in neighbouring Australia and New Zealand can have an impact on Vanuatu's exports and the services sector including tourism and foreign direct investment which have been important sources of economic growth in Vanuatu.

However the crisis is likely to bring benefits to the Vanuatu economy in terms of lower international oil and petroleum prices. Furthermore as currencies of countries such as Australian and New Zealand have depreciated the prices of some of our imports from these countries should become cheaper. These developments could have a moderating impact on domestic inflation.

Vanuatu has and continues to enjoy strong economic fundamentals and macroeconomic stability. Real economic growth is estimated to be around 6.5% in 2007 and is projected to experience further growth this year. The level of official foreign reserves are healthy and currently stands at 7.3 months of import cover”.

In terms of our domestic financial system, the banks in Vanuatu are well capitalised and are insulated from global financial markets. The Reserve Bank therefore does not expect any major issues to arise in our domestic financial system from the current financial turmoil. Further, the Reserve Bank has put in place a number of measures in the past years to assist the banks should they need liquidity support.


BANQUE DE RESERVE DE VANUATU

