



RESERVE BANK OF VANUATU

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Reserve Bank of Vanuatu raises rediscount rate by 0.25 percentage points to 6.25 per cent

5th September 2008

The Reserve Bank of Vanuatu's Monetary Policy Committee (MPC) decided to increase the rediscount rate to 6.25 per cent at their meeting on the 5th September 2008. This will come into effect from Monday 8th September 2008.

Vanuatu is experiencing stronger growth than expected in the first half of the year. As a result the Ministry of Finance and Economic Management (MFEM) made an upward revision to their growth forecast for 2008, it is now expected that GDP will grow by 6.3 per cent. This demonstrates Vanuatu's macroeconomic strength and stability.

The growth in the economy has been accompanied by an increase inflation as a result of pressures coming from the global energy, food and commodities markets. The Reserve Bank of Vanuatu revised its Consumer Price Inflation (CPI) expectations upwards from 3.0 per cent to 4.3 per cent with inflation forecasts for 2009 remaining close to 4.0 per cent. The rate of inflation remains at the upper end of the Bank's comfort zone of 0-4 per cent, at 3.9 per cent for the second quarter of 2008. It is expected to exceed this level in the near future as the government is expected to maintain high level of spending. Coupled with this the global price pressures remain high and will hit Vanuatu on two levels. First, the food items are themselves becoming more expensive, and second, the higher transportation costs mean that domestic consumers will face a second price increase on their goods, as importers add these higher costs to the initial price.

Private sector credit has experienced strong growth during the first half of the year, increasing by 29.4 per cent in June alone. This fast growth is being carefully monitored by the Bank in line with the current economic situation.

In the Committee's judgment the strong performance of the Government and fast paced growth in credit have driven strong growth in the total supply of money. This high level of growth in the money supply will help support further growth in the economy as consumers spend more. There were concerns over the inflationary pressures which will result from this and as such prompted the increase in the rediscount rate to curtail inflation and prevent consumer indebtedness as the credit market continues to grow.

Against that background, the Committee judged that an increase of 0.25 percentage points to 6.25 per cent was necessary to help mitigate the strong inflationary pressures. The Reserve Bank will continue to monitor developments in its twin monetary policy objectives and adjust its policy accordingly.