

# **Governor's Address 2025**

## **Motivation - A quote from Charles Dickens**

*"Credit is a system whereby a person who can't pay gets another person who can't pay to guarantee that he can pay"*

*Deputy Governor,  
Directors and Officer in Charged of RBV Departments  
Advisors,  
Management Committees  
Managers  
Staff*

## **Introduction**

As we begin 2025 together, the world is already facing new uncertainty emerging from the United States aggressive effort with shift in policy direction. We read of threads by the US President Donald Trump, to tighten US fiscal policy in the form of new tariffs which has the primary consequences to affect confidence particularly the US trading partners. Obviously, this is detrimental to economic activity especially when uncertainty persist as we know that the world economy is in itself a closed economy.

We don't know if monetary policy can change that but such new direction may force the world to live with. What monetary policy should do is to help with short-run adjustments. For those countries trading with the US, a single instrument "such as the policy rate" - will generate consequences for their economy. One thing for sure, monetary authority will monitor these developments very closely to ensure output and inflation are not affected at the same time. However, it maybe of interest that Central Banks in these countries may implement necessary policy to manage the short run expectations of such structural shift as well as other supply chain disruptions.

As we navigate our journey into the uncertain world, RBV should be abreast of what is already developing. Vanuatu is not isolated from any global shocks however, it is our role to ensure we apply the correct and efficient monetary policy judgment to safeguard Vanuatu's welfare. This year's inaugural address is intended to set out the plans we as an independent central bank intends to achieve this year and over the medium term. The address will also set out some plans together as RBV intends to achieve as we strive to reshape the Bank into a modern and strong Central Bank in the region. The flow of the address will commence with Budget 2025, foreign reserve management, inflation, transparency, financial inclusion, legislation and will conclude with a section on research and development.

## **Budget 2025**

The RBV board has allocated a total provisional revenue budget of VT 2,772,385,194 this year 2025 to run and operate this institution. The Board has also approved an operational budget towards RBV spending at VT1,891,057,773 and a further Capital expenditure of VT752,483,000. Of the Bank's operational budget 43% will be diverted towards Personal emoluments. Of the total capital budget, 30% OR VT225,746,000 will be invested to the RBV's Santo Branch Office, with a further 17.6% invested on office equipments. On this note, RBV's planned Economic Symposium to be proceeded with its ground breaking ceremony are now schedule to happen sometimes in June this year in Santo. I still expect all RBV staff's attendance to both events.

The 2025 revenue forecasts were derived based on the usual conservative approaches to forecasting; with 90% of the projected receipts to be generated from investment in foreign assets and about 10% to be sourced from domestic investment. Normally during budget review, the Board will make adjustments to the budget to accommodate global economic and market conditions that have impacted how the Bank has implemented its budget from January till July and its expectations over the remaining months.

Post-earthquake related expenses will mean that most contingent costs have been accumulated which have not been accommodated in the 2025 Budget. It is highly expected that most of these expenses will be accommodated during the mid-year budget review.

## **Foreign Reserve Management**

In managing RBV foreign reserves, we follow closely the RBV established investment policy guidelines guided by CAP 125. This guideline provides an objective to generate other sources of revenue investments in cases where global markets face financial turbulences. While pursuing this investment objective, it is always in our interest to ensure these investments display the characteristics of a balanced investment portfolio risk. This is because through diversification, it is in the Bank's best interest to achieve sustainable level of portfolio return within acceptable level of risk limits.

It is for these reasons that of the 2025 provisional investment classifications in Foreign Assets; 74% of RBV's investments are likely to be placed in short-term securities, 19% will be invested in fixed income securities, and 7% to be invested in cash. These investment classifications will depend very much on how market develops over the year. They can be amended anytime depending on how the Bank perceived the risks associated to prevailing economic conditions.

Of these investment allocations; we planned to distribute 39% to Supranational institutions, 45% to financial institutions, 13% to government/sub-sovereign agencies and 3% will be invested in foreign central banks. I am confident that over 55%

composition of the investments on foreign Government institutions, will be invested inline with the RBV investment guidelines. I develop the same level of confidence over the remaining 45% that will be allocated to foreign corporate institutions. It is important to note that 93% of the foreign reserve investments are invested in securities and institutions that are currently rated Aa3 and 7% of the reserves are invested in securities and institutions that were rated below the Aa3 but still within the RBV investment grade.

I have in several occasions including at the Board level indicated the need to further diversify RBV's investments in foreign assets, including buying Gold bars. Buying Gold is part of RBV portfolio diversifications grounded by sections 22, 23 & 24 of CAP 125. I have specifically requested the Director of Financial Markets and his team to undertake some cost benefit analysis about this investment choice. We all know that Gold has been priced for thousands of years: as jewelry, decoration, currency and commodity. Gold doesn't tarnish or decay and has long been accepted as a form of payment. Gold is precious that it has always been treasured and recycled. Our currency is no longer based on gold and silver coins. But Gold is traded widely and many banks hold reserves of gold as an investment, especially as a store of wealth.

RBV needs a very strong balance sheet. A balance sheet that is strong, resilient and reliable against other structural headwinds.

### **Inflation**

When we talk about inflation, we worry more about price stability. In ordinary words, when we talk about price stability, we refer to times when ordinary people stop talking and worrying about inflation. Quite often policy makers formulating monetary policy must ask themselves these questions: Should monetary policy only be directed at stabilizing inflation? Or does it have a role in stabilizing other macroeconomic variables including output?

There are several views of monetary policy but the ultimate objective of economic policy is to enhance citizens welfare. Monetary policy is part of economic policy but monetary policy only has sustained/persistent effects on a limited number of variables. That is why at RBV, we can only assigned limited number of goals. This is because, specifying goals that cannot be achieved is unproductive rather we often set goals that are consistent with the overall objective for economic policy.

Most central banks control price stability through its policy instruments. At RBV, it is still difficult to get an appropriate measure of output gap. I have been requesting the Economic and Research Department to derive Vanuatu's output gap. This is because by deriving the output gap, it is easy to manage inflation as the difference between current and potential output and applying the correct policy instruments; by magnitude and value to effect changes. Output gap is also a measure of excess demand

in the economy and we know that this is mostly addressed through the monetary transmission mechanisms which are mostly ineffective in Vanuatu. I held several discussions with the ERD team to investigate these transmission mechanisms in details but limited was achieved in 2024. I am again appealing to the newly appointed Directress of ERD to investigate these channels through collaborative researches. We must not be complacent to assume that things are challenging today even with the modernization of Vanuatu payment systems and our pursuit of financial inclusions.

Commonly in Vanuatu, when measuring inflation we often succumbed to evidence that domestic inflation is also independently and externally affected by production costs, such as changes in wage costs and costs of inputs (including oil), changes in exchange rate also increases import costs. But prices and wages setting are affected by expectations of future inflation. So when RBV lower its policy rate there is potential for inflation expectations to be generated. In more complex markets, we often observe that lags are long and variable. In Vanuatu, optimal monetary policy can also be subjected to shocks. Identifying these shocks can be very difficult.

In the long run, monetary policy can only control nominal variables, such as inflation and exchange rates which is what our monetary policy framework was designed to achieve. Although it's not within RBV's legal framework to affect growth, RBV can only influence variability of real variables. It must be within our objectives that monetary policy can at best, provide a stable environment for the real economy. But the fact it can have effects in the real short/medium run creates tensions and temptations. How do we handle these? A crucial ingredient for a stable environment for the real economy is a "nominal anchor". This is an anchor for nominal variables and our expectations of future nominal variables. That is at RBV it must always be our aim for low and stable inflation because by achieving these, we provide the best nominal anchor.

### **Transparency**

Transparency in modern central banks has attracted a lot of interests. Central bankers have been debating, how transparent should Central Bank be? In the past, central bankers often worry about the effects of releasing public information and if it is desirable to have frequent and timely information releases because of the fear that public information can be a two-edged sword. This is because public information could convey information about underlying fundamentals which will allow agents to make proper decisions. But public information could also act as a focal point for the belief of a group of people as a whole. There is risk that public information swamps perfectly good with private information that could potentially leads to overreaction, and crowding out, which are welfare reducing.

In reality the effects of transparency and communication policy are therefore, subtle. In simple and less complicated markets like Vanuatu, the role of transparency can be

very critical as it affects confidence. It allows agents to make proper decisions about resources allocations that is utility maximizing and welfare improving. Since monetary policy is all about dealing with expectations, it must be within our conscience that our monetary policy decisions conducted through our framework must not produce outcomes which may increase the precision of public information that would generate more volatile economic outcomes. It is my believe that unlike conventional monetary policy tools, modern monetary policy tools should always generate realistic and positive outcomes.

In promoting transparency within the Bank, the RBV Board has recently endorsed the RBV communications policy, with primary purposes to manage expectations in our efforts to ensure transparency we must implement this communication policy at the same time adopt a more transparent communication approach so that economic agents can make informed decisions that maximizes utility and improve welfare.

### **Financial inclusion**

Being a signatory to the alliance of financial inclusions, most countries have experienced the rapid expansion of digital financial services. This expansion, have fundamentally transformed financial systems, offering improved convenience, speed and accessibility. In Vanuatu, the increasing adoption of mobile money underscores the need for a comprehensive regulatory framework to support sustainable growth in this sector. The RBV recognizes the significant role the digital financial services plays in enhancing inclusion, particularly in underserved communities, while promoting broader economic development. However, the growth of digital financial services introduces inherent risks, including fraud, data breaches, customer protection and related issues, which must be managed through clear and structured guidelines to avoid regulatory ambiguities.

The address these challenges the RBV has already established a regulatory framework following the signing of an amendment to the existing MOU between the RBV and TRBR on 21 March 2023. This MOU formalizes the collaboration between the two regulatory bodies in regulating and supervising telecommunication services operators while banks and other financial institutions should be offering digital financial services. The amendment provides the RBV with the full authority to regulate mobile money operators under the National Payment Systems Act No.8 of 2021, at the same time recognizing the financial nature of these services.

RBV understands the importance of mobile money as a tool to overcome the geographic and physical challenges posed by Vanuatu's dispersed archipelago, and it expect that the adoption of mobile money services will bridge the gap between rural populations and formal services, thereby advancing the nation's financial inclusion goals. This year, in consultation with key stakeholders including the Commercial Banks, Telco companies and the Government, RBV plan to introduce a regulatory framework in Parliament, designed to guide the development and operation of mobile money

services, ensuring stability, transparency and customer protection while promoting innovation and financial integrity.

### **Legislation**

RBV's foundation rest with its legislation CAP 125. The current legislation is very old containing excessive potholes that it becomes unbearable to navigate your ways smoothly. It has been patched over and over again but the need for very smooth ride to reach decision and destinations promptly remain our big challenge. The current CAP 125 restricts RBV to conventional monetary policy. However, monetary policy setting has evolved, expanded, developed and reinvented to accommodate new boundary including climate change, artificial intelligence, crypto currency, digital currency etc...

Further, all central banks are subject to a safeguard assessment that provides a standard set of documents, which are reviewed to arrive at a judgment about its adequacy covering external audit, legal structure and autonomy, financial reporting, internal audit and internal controls. I am proud to announce that due to our commitment and team work, we have successfully procure the service of an external internal audit firm to undertake internal audit services within RBV. It was recommended by the IMF in 2016 but RBV was not able to show commitment until last October when we took that decisive step to change how RBV should be operated and managed internally in line with international best practices. The successful firm is ranked in the first four (4) of the global internal audit sectors. Further, last December, the RBV board endorsed RBV's planned restructure which will see the repealed of the existing CAP 125 and a new and modern Central Bank legislation will be written.

With this, I am pleased to announce that the IMF legal department has written to confirm their support with the RBV new legislation. I am sure, the new legislation will capture many new aspects of modern central banking and events such as state of emergency and provisions that will modernize the bank to comply with International financial regulatory standards and requirements like the Basel III.

It is our ultimate goal that once the new RBV legal counsel has been recruited by March, work on the new legislation should proceed immediately. We have previously informed the IMF Mission Chief and possibly his replacement and the Safeguard Team that RBV should have a new Legislation by 2025. We are confident, the recent and future reforms RBV is embarking on will reposition RBV as a competitive central bank in the region and one that will transform modern monetary policy formulation in Vanuatu and the region.

### **Research and Development**

RBV must establish a culture of robust, high-quality policy research ecosystem that will influence policy creation and formulation as well as strong research capacity. RBV must establish, maintain and grow a policy research database that serves as a vital resource

for policy making, information exchange, and policy discussion. RBV does not now have a research culture. I noted the support from the RBV Board in realizing the importance of research and economic development in the country.

Similarly, capacity building and research training will be crucial to sustaining high-calibre research outputs. That is why we have to collaborate with other Central Banks in the Asia-Pacific region to join the Asia Pacific Applied Economics Associations and Griffith University Research Associations to improve the calibre of our research as well as to enhance our capacity and human capital accumulation. I strongly believe this is a positive and constructive move.

In doing so, it will strengthen our research identity as Central Bank and as one of the leading research organizations in this country, we must expand and stand out on these achievements. If RBV accomplish this, it will improve the nation's whole policy research ecosystems, including all other organizations like the necessary Ministries and Statutory bodies. This will not only boost trust in our policies but will raise our credibility and have significant positive influences on economic policy that will impact growth and development.

As RBV is gearing up its effort to Research and Development, I wish to announce RBV's Research Conference 2025 which be held in May in Port Vila. This research conference will be hosted by RBV jointly with the Asian Development Bank Institute and the Asia Pacific Applied Economics Associations. I am expecting a good crowd turnout with full participation from RBV staff.

## **Conclusion**

In conclusion, RBV needs a new legislation which will serve as a corner stone to greater accountability that will facilitate a sense of a modern central bank. Conventional monetary policy must adapt to changes because we must recognize that the world has already moved on. Central Banks now required different tools to gather information and perform analysis about structural headwinds and supply shocks. This means RBV must invest deeper in Research and Development and build models that can better analyze sectoral shocks and their transmission about the supply side of the economy. It means regularly challenging our assumptions and using scenarios to assist manage uncertainty.

Finally, If I am committed to evidence-based policy formulation, RBV must be opened, accountable and transparent as technocrat and professional that are free from political manipulations - RBV surely need greater independence. We need to be certain that being independent, accountable and continuously learning is how we built trust.

Let me finish the Address 2025 with this quote from a Central Bank Governor "The World is a tougher place today than it was a few years ago. And placing the headwinds

before us will not be easy. But that is why we have independent central banks - central banks are designed for tough times”.

Thank you for your kind attention

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