RESERVE BANK OF VANUATU

HALF YEAR MONETARY POLICY STATEMENT

MARCH 2016

Reserve Bank of Vanuatu

Half-Yearly Monetary Policy Statement

March 2016

1. Statement by Governor
2. Monetary Policy Objectives
3. International and Domestic Economic Overview
4. International and Domestic Economic Outlook
4.1. International Economic Outlook
4.2. Domestic Economic Outlook
a. Economic Activity
b. Inflation
c. Balance of Payments & International Reserves
5. Monetary Policy Stance

1.0 Statement by Governor

The global economy performance has started diverging in the last six months. Growth in advance economies slightly improved while emerging economies have slowed. The IMF January World Economic Outlook (WEO) revised the global growth outlook down to 3.1 (from 3.3 percent) and 3.4 (from 3.6 percent in its October 2015 WEO) for 2015 and 2016 percent, respectively. In advanced economies, the US remained the main driver of growth, expanding at a moderate pace, followed by moderate improvement in growth in the Euro area and Japan. The Chinese economy drop to a growth of 6.9 percent in 2015 from 7.3 percent with growth expected to remain around 6.3 percent in 2016. Risks to growth in 2016 is prominent for emerging markets and developing economies. Lower global oil prices are expected to help support global growth, although sustained low prices may harm growth prospects for oil-exporting countries. This is expected to be more pronounced in the emerging markets economies and Latin America as well as Australia and New Zealand.

Financial conditions in advance and emerging economies continued to remain accommodative. In the US, the Federal Reserve Open Market Committee exits its accommodative monetary policy as the US Fed lifted the federal interest rate from the zero lower bound that may result in tighter global financial conditions. The European Central Bank (ECB) kept its main refinancing rate at a record low level and started monthly purchases under its asset purchase programme to expand to €80 billion. The Reserve Bank of Australia left the cash rate unchanged at a record-low of 2 percent after a cut by 25 basis points in May 2015 in response to below trend growth. According to the RBA, the RBA's accommodative monetary policy stance is appropriate at this stage to encourage sustainable growth in the economy, and is consistent with achieving the inflation target. The Reserve Bank of New Zealand (RBNZ) reduced its Official Cash Rate (OCR) by 25 basis points to 2.25 percent in March 2016 maintaining an accommodative monetary policy. The RBNZ may pursue further policy easing to ensure that future average inflation settles near the middle of the target range.

The Macroeconomic Committee (MEC) in its recent meeting has revised down its 2015 GDP forecast from 2.5 to 1.3 percent. This was due to reschedule of major projects to 2016 onwards. Growth in 2016 and 2017 is expected to be around 4 percent and 4.3 percent respectively attributed mainly to the industry sector, reflecting private and commercial reconstruction activity in the aftermath of Tropical Cyclone Pam. In addition, commencement of major donor funded public infrastructure supplementing those that had commenced in late 2015.

Price of Vanuatu's major export commodities continued to remain relatively low compared to 2014. International prices of Vanuatu's major import commodities have also remained low in the December quarter of 2015. Domestic price remained stabilized despite reaching high levels in the June quarter of 2015 following impacts of supply shocks on prices after Tropical Cyclone Pam before descending to relatively low levels. The latest inflation figures increased to 0.1 percent from September to the December quarter. The annualized rate to end December 2015 also rose to 1.5 percent driven by increases in the transport sector, housing and utilities, education clothing and footwear, and food items. The inflation outlook for 2016 and 2017 is forecasted to remain within target.

Following the devastation brought by Cyclone Pam last year, the Reserve Bank of Vanuatu had taken appropriate actions to address the challenging economic condition by relaxing its monetary policy stances and putting in place facilities, measures and policies to assist domestic growth, to restore confidence in the domestic economy and financial sector, address liquidity constraints in the banking sector and strengthen foreign official reserves. These are short term measures and the RBV is closely monitoring developments and stands ready to adjust its monetary policy stances as and when conditions change.

Simeon M ATHY
Governor
The Reserve Bank of Vanuatu

2.0 Monetary Policy Objectives

RBV continues to maintain an appropriate monetary policy stance that is conducive to supporting economic growth through maintaining a viable balance of payments position and ensuring price stability. It aims to maintain inflation rate between 0 and 4 percent and international reserves sufficient to cover more than 4 months of imports.

Over the last six months the country's import cover exceeded the RBV threshold target of 4 months, financing 8 months of import cover at the end of December 2015. Despite annual inflation reached above 4 percent in June, due to temporary supply shock effect from Cyclone Pam in March, inflation fell back sharply to below the 2 percent in the last 2 quarters of 2015. The forecast for the next six months places both inflation and international reserves within the RBV target, however, this position is likely to risk changing with the forecasted pick up in the implementation of public funded projects and continuous reconstruction activities following TC Pam.

3.0 International and Domestic Economic Overview

3.1 The International Economy

Global economic activity remained subdued in 2015. Growth in the emerging market and developing economies declined for the fifth consecutive year while a modest recovery continued in advanced economies.

Global growth continued to diverge across all major economies with the euro area growing slightly stronger than previously estimated, while growth in the US, and Japan weakened due to a slack in demand and investment. New Zealand has also recorded a weaker growth in the period leading up to end of 2015 while growth in Australia remained stable.

The recent fall in global oil prices has contributed to tremendous support for growth following declined transport and productivity costs. With the large global oil inventory expected to continue in 2016, oil prices are expected to remain near current levels. The global oil inventories are expected to grow by an average of 1.6 million barrel per day in 2016 and 0.6 million barrels per day in 2017. The recent fall in global oil price is expected to support growth going forward. In emerging markets, volatility has increased, reflected in higher credit spreads.

Fiscal and monetary policy conditions globally remained accommodative as reflected in the long-term low interest rates and risk spreads. Many central banks within the advance economies continued to maintain a highly accommodative monetary policy stance. In US, the Federal Reserve has ended its asset purchase programme has increased the Federal rate to 0.5 percent in December 2015, whilst the European Central Bank has further reduced its key financing rate to 0 percent in March 2016 from 0.05 percent in February 2016. This signals the accommodative monetary policy stance pursued by these Central banks. Inflation and inflationary pressures are contained globally. The current cut in oil price is driving down inflationary pressures. In New Zealand and Australia, inflationary pressures have also eased. The Reserve Bank of Australia left the cash rate unchanged at a record-low of 2.00 percent, after a cut by 25 basis points in May in response to below trend growth. On the other hand, the Reserve Bank of New Zealand further reduced its Official Cash Rate to 2.25 percent in March 2016 from 2.5 percent in October 2015.

Economic activities in the US slowed in the last quarter of 2015 with businesses less aggressive in their efforts to reduce unwanted inventory which could hurt output in the first three months of 2016. GDP grew by 1.0 percent in the fourth quarter of 2015 compared to 2.0 percent in the third quarter. A range of recent labour market indicators including strong job gains has indicated some improvement in the Labour market conditions with the unemployment rate declining to a lower level of 4.9 percent in January 2016 compared to 5.0 percent in the December of 2015. Federal Reserve Open Market Committee increased the Fed rate to 0.5 percent).

The euro area economy grew by 1.5 percent in the fourth quarter of 2015 on year-on-year growth compared to 1.06 percent in the previous quarter. Additional data from across the continent indicate that the German economy maintained its pace of growth, while economic momentum in France and Italy was disappointing. Conversely, the Spanish economy continued to be the best performer, while the struggling economy of crisis-ridden Greece recorded another disappointing contraction. As 2016 began to unfold, the ongoing turmoil in financial markets and February's sharp fall in both the Composite PMI and economic sentiment sharpened awareness of downside risks in the near term.

New Zealand's economy grew by 3.1 percent in the December 2015 quarter year-on-year, down by 0.8 percentage points from 3.9 percent in the third quarter. This growth is driven mainly from the goods and services sectors due to increase in businesses and exports. Unemployment rate in the December quarter 2016 fell to 5.3 percent compare to 6.0 percent in the September quarter. The consumer price index rose 0.1 percent in the March quarter 2016 compared to a 0.4 percent increase in the last quarter of 2015. This weak increase in prices was contributed by the fall in petrol prices by 8.1 percent, however offset by increase in housing and utilities prices specifically in Auckland. Excluding petrol, the CPI showed a 0.5 percent increase in the year to the December 2015 quarter. Compared to the Australian economy, inflationary pressures in Australia rose slightly over the fourth quarter, with annual inflation recorded at 1.7 percent, compared to 1.5 percent in the third quarter of 2016. The seasonally-adjusted unemployment rate decreased to 5.8 percent in January 2016, down from 5.9 percent in December 2015. While growth continues to be moderate; seasonally-adjusted annual growth in the fourth quarter of 2014 stood at 2.6 percent (yoy). Lower commodity prices and the strengthening of the US dollar contributed to a lower exchange rate, expected to support growth in non-mining sectors.

Crude oil prices fell to low levels, registering US$31 per barrel compared to US$37 per barrel in December 2015 and US$61 per barrel in June 2015. Global supplies remained abundant due to an increase in North American supplies, and a reluctance of members of the Organization of the Petroleum Exporting Countries (OPEC) to cut production. Demand for oil remains weak, especially in Europe and China where growth continues to slow.

Commodity prices rose 2.0 percent in February 2016, the first increase in nine months with gains all main indices primarily metal and agriculture prices. The increase in agricultural price resulted from the El Nino event pushing up some food prices (palm oil). Despite this slight increase, the weak prices generally reflected the weak demand and ample supply, and in part due to the appreciation of the U.S. dollar. Agriculture prices increased 0.2 percent in February, reflecting slight increases in agricultural raw material prices, beverage prices and rice prices rose 4 percent in response to the lower than expected output from Asia as a result of the El Nino weather pattern affecting production Asia, especially in Indonesia and Malaysia. (*Source: Commodity Market Monthly – March 15, 2016*).

3.2 The Domestic Economy

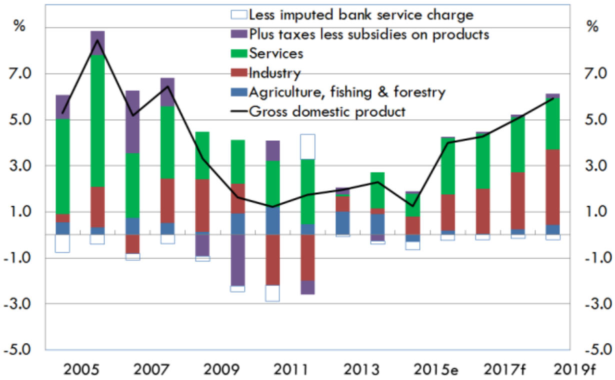
The domestic economy was driven by the industrial sector following donor-funded projects and reconstruction activities in the after-math of TC Pam followed by a weak services sector. Aside from the effects the cyclone, international prices of domestically produced commodities play a leading role in export performance as global commodity prices for Vanuatu's major exports dropped during the last 6 months. In the after-math of TC Pam, Tourism arrivals fell compared to the previous year with expectations that growth may gradually pick slightly after works on the Bauerfield International airport airstrip is expected to be completed by May 2016. Construction activity remains steady, driven by private and a number of aid funded infrastructure projects, including the improvement of Lapitasi wharf, urban infrastructure, Urban Beautification Projects and other infrastructure projects that are expected to be implemented from later in 2015 to 2016.

For the past six months the decline in agriculture sector export was led by all of Vanuatu's prime exports: copra, cocoa, beef, coconut oil, copra and kava exports. The decline contributed to a drop in total exports by 30 percent.

Key Partial indicators of domestic consumption showed particular improvement in 2015, particularly Value Added Tax (VAT) implying that domestic consumption remained strong. However, despite private sector credit remain weak in growth over the year, the pickup in total imports was associated with increased support for relief and import of construction materials for reconstruction activities in the aftermath of TC Pam.

A total of 92,046 tourists visited Vanuatu during the December quarter of 2016, representing an increase of 20.2 percent over the previous quarter and 7.5 percent when compared to the same period of last year. From this, 37 percent are air arrivals and 73 percent arrived by cruise ships. A total of 1,306 tourists arriving by air visited Santo (significantly high compared to the previous quarter and over the year) while the rest landed in Port Vila. Going forward cruise tourist towards year end 2016 associated with the expected increase in the number of cruise-ship scheduled visits compared to 2015 while air arrivals is likely to start to improve after the completion of the International airport reports in May 2016.

Figure 1: Vanuatu GDP (Contribution to Annual Growth; Major Sectors)



Source: Vanuatu National Statistics Office: and MEC forecasts.

In the Banking system, M2 declined 1.7 percent in January 2016 owing to declines in net foreign assets. Net Claims on Government position improved largely in January 2016 and over the year from January 2015 reflecting the increase in Government deposits with both the ODCs and Reserve Bank. Credit to Other Nonfinancial Corporation declined by 0.6% and 2.5%, over the month and previous year's level, respectively. Loans to Other Resident sectors decline by 0.3% from December 2015, but rose by 6.0% over the year from January 2015.

The government's fiscal position recorded a vast improvement in December quarter 2015 relative to a deterioration witnessed during the previous quarter. Recurrent revenue performed exceptionally well during this quarter, with the support of donor inflows resulted in this favorable position. Despite the increase in total expenses, the magnitude was insignificant to offset the rise in revenue collection.

Total revenue rose by 18.4 percent and 17.8 percent from the previous quarter and year, respectively, to reach VT6,224.1million. Similarly, total expenses amounted to VT5,206.4 million. Considering the extent of the increase in revenue exceeding expenses resulted in a net operating surplus of VT1,017.7 million. Netting out the value of VT171.1 million in net acquisition of non-financial assets from this balance, placed the overall fiscal surplus at VT846.0 million. This surplus was higher than that recorded during the previous quarter and year, respectively.

4.0 International and Domestic Outlook

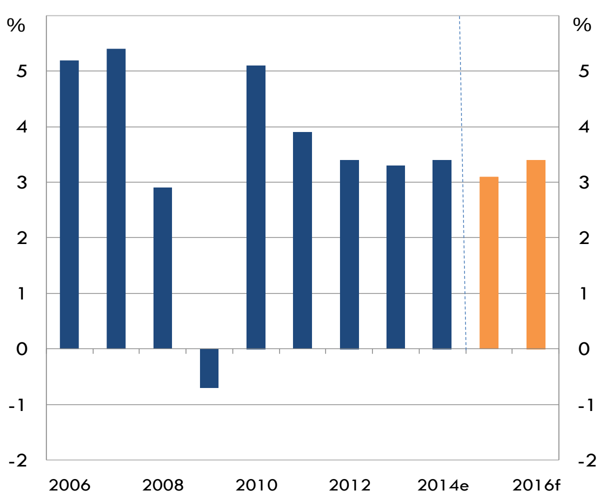
4.1 International Economic outlook

The International Monetary Fund projects global growth is projected to pick up more gradually than previous expected (October 2015 World Economic Outlook). According to the January 2016 WEO, Global growth is now projected at 3.4 percent in 2016 and 3.6 percent in 2017. Advance economies are expected to maintain a modest and uneven recovery while the slowdown and rebalancing of the Chinese economy, lower commodity prices and weak growth in the emerging markets are expected to weigh down growth prospects in 2016-2017. Further-more concerns about the future performance of the Chinese economy may have spill over effects to other economies through trade channels, weaker commodity prices and diminishing confidence and increasing volatility in financial markets.

Growth in advanced economies is projected to rise by 0.2 percentage points in 2016 to 2.1 percent and hold steady in 2017. The easy financial conditions and strengthening housing and labour markets will support overall activity in the United States. However the stronger USD may weigh on manufacturing activity and investment in mining and equipments maybe curtailed by lower oil prices. In the euro area, stronger private consumption is supported by lower oil prices while growth in Japan is expected to be firm in 2016 with a support from its fiscal policy, lower oil prices, accommodative financial conditions and rising incomes. Emerging market and developing economies is projected to growth from 4 percent in 2015 (the lowest since the 2008-09 financial crisis) to 4.3 and 4.7 percent in 2016 and 2017, respectively. This is supported by higher growth projected for the Middle East with most counties in sub-Saharan Africa is expected to see a gradual pickup in growth however the lower commodity prices may weigh on outlook, while emerging Europe is projected to continue to grow at a broadly steady pace.

The declining global oil price is expected to support growth going forward. However, downside risks still remain, including heightened geopolitical tensions in a number of regions affecting confidence and disrupting global trade, financial and tourism flows. Further decline in commodity prices would worsen the outlook for already-fragile commodity produces, with risks of increasing yields on energy sector debt that may threaten tightening of credit conditions. On the upside, the recent decline in oil prices provides a stronger boost to demand in oil importers and consumers.

Figure 2: World Economic Growth (IMF World Economic Outlook, annual data)



Source: IMF

Financial conditions remained exceptionally accommodative as reflected in a long-term low interest rates and risk spreads seen globally. Financial conditions in many advanced economies have continued to ease. Over the quarter, most central banks continued to maintain highly accommodative monetary policy stances. Monetary easing in the euro area and Japan is proceeding broadly as previously envisaged, while in December 2015 the U.S. Federal Reserve lifted the federal funds rate from the zero lower bound. Overall, financial conditions within advanced economies remain very accommodative.Inflation and inflationary pressures remain contained globally, with lower oil prices driving down inflationary pressures. In New Zealand and Australia, inflationary pressures have reduced over the last 6 months of 2015. The huge drop in oil prices towards the end of 2015 reflects the expectations of sustained increases in production by Organization of the Petroleum Exporting countries (OPEC) members amid continued global oil production in excess of oil consumption. Future markets have projected modest increases in prices in 2016 and 2017.

Major economies are projecting positive growth in 2016 and 2017. In the US, annualise growth recorded 2.5 percent in 2015 Consumption has been the main engine of growth having benefited from more job creations, low oil prices and non-energy imports, and improved consumer confidence, however due to some offsetting effects from low investment in mining from lower oil prices may weigh on outlook. In January unemployment rate fell 1 percentage point to 4.9 percent. Projected growth is forecasted to improve slightly to 2.6 and 2.6 percent for 2016 and 2017, respectively (a revision downwards by 0.2 percentage points from the previous forecast).

In the Euro area, activity showed signs of a pickup, with an estimated growth of 1.5 percent in 2015. Consumption remains the main driver supported by current low oil prices. GDP is estimated at 1.7 in both 2016 and 2017, respectively (slightly higher by 0.1 percentage points from the previous forecast). The region is held back by the peripheral countries where the levels of growth have not yet reach the pre-recession levels. Although on a gradual decline, the unemployment rate is still high and inflation very low. In terms of its monetary policy, the interest rate on the main refinancing operations of the Euro system will be decreased by 5 basis points to 0.00%; and the interest rate on the marginal lending facility will be decreased by 5 basis points to 0.25%, with effect from 16 March 2016. Furthermore, the monthly purchases under the asset purchase programme will be expanded to €80 billion starting in April 2016.

In China activity was broadly in line with forecast with a recorded 6.9 percent growth in 2015. In 2016 and 2017 growth in China is projected to grow by 6.3 and 6.0 percent reflecting weaker investment growth as the economy continues to rebalance. The authorities are expected to be looking more at reducing vulnerabilities from recent rapid credit and investment growth than the focus on policy response to the current situation. It is expected that the current level of activities, lower oil and commodity prices will drive consumer demand while partly cushioning the hold up.

The Australian economic growth is projected to be at 2.5 percent in 2015-2016, a revision from 2.75 percent projected previously. It is expected that lower commodity prices and resources related investment will be offset by supportive monetary policy and a somewhat weaker exchange rate. Low commodity prices coupled with already diminishing iron ore mining will create large output gaps that show a series of official rate cuts in the period leading up to end of 2015.

Output growth in New Zealand is estimated to have slowed to 2.3 percent in 2015, despite resilient consumption due to a fall in dairy prices leading to a sharp drop in income growth after the positive effect of declining oil prices had worn off and investment activity related to the Canterbury rebuild has levelled off. The exchange rate depreciation has cushioned some of the impact of the decline in dairy prices. The bilateral exchange rate against the U.S. dollar has depreciated as dairy prices fell and the Reserve Bank of New Zealand (RBNZ) eased monetary policy. Overall, output growth is projected to recover to its estimated potential rate of 2.5 percent mainly due to expected growth in consumer demand in other Asian countries.

Brent crude oil prices were lower at US$43.4 per barrel in the December quarter 2015. Global oil prices started falling from June 2015, reaching just below a 30 percent fall in the latter half of the year. Global supplies remained high reflecting expectations of sustained increases in production by Organization of the Petroleum Exporting Countries (OPEC) members amid continued global oil production in excess of oil consumption. Demand for oil remains weak, especially in Europe and China where growth continues to slow. Currently Brent crude oil has increased to US$33.2 in February 2016

4.2 Domestic Economic outlook

a. Economic Activity

The Macroeconomic Committee (MEC), in its recent meeting has revised down its 2015 GDP forecast from 2.5 to 1.3 percent. This was due to rescheduling of major projects from 2015 to 2016 onwards. Growth in 2016 is expected to be at 4 percent attributed mainly to the industry sector of the economy, reflecting private and commercial reconstruction activity in the aftermath of Tropical Cyclone Pam and commencement of major donor funded public infrastructure addition to those that had commenced in late 2015. With most big projects and Post TC Pam reconstruction on the ground, growth for 2017 and 2018 are projected to be at 4.3% and 5.1% respectively.
MEC will continues to monitor developments and report updates in its next July meeting.

As a result other subsectors of the industrial sector are also expected to pick up in growth. Furthermore, imports of imports for reconstruction for reconstruction materials and donor projects may continue in the first few months of 2016. However there is still expected a shortfall in the services sector following the current repair of International airport that saw halt in a number of international flights particularly from Australian and New Zealand market. Nevertheless, a pickup is expected after the completion of this upgrade and various resorts are due for re-opening by May 2016. The weak growth in service sector will be offset by increase in construction activity. Furthermore, reconstruction activity and donor funded projects is expected to support growth in 2016.

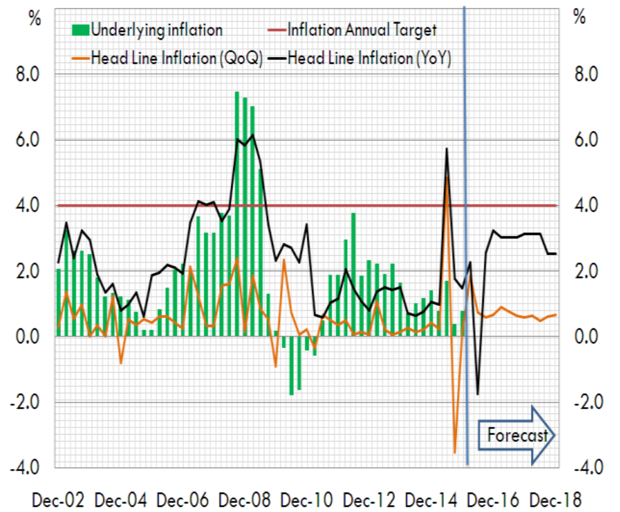
In the Banking system, it is expected that domestic activity will increase following the implementation of public funded construction projects which will lead to increase in private investments and banking activities.

In 2016, the Government is expected to operate a balanced budget through increased revenue collection from VAT and other forms of tax revenue, domestic borrowing, donor grants and donor loans. In addition, prudent expenditure control measures have been put in place in order to guide overall expenditure according to the budget target. However, fiscal risks remain in terms of too many new policy proposals by ministries and legal obligations, shallow bond market, the need for new external loans and natural disasters which may result in unbudgeted expenses for the government.

Inflation

The latest inflation figures show inflation increasing by 0.1 percent in the December quarter 2015 compared to the previous quarter, while the annualized rate also rose by 1.4 percent. The increase over the quarter was driven mainly by: transportation, housing and utilities, clothing & footwear, and drinks and tobacco while food and miscellaneous groups shows offsetting declines. The annual rate was similarly driven by increases in the transport sector, housing and utilities, food, clothing and footwear, education recreation and household supplies and, drinks and tobacco. . The outlook for 2016 and 2017 will see inflation rates above 2 percent, from the impacts of donor funded projects and Cyclone Pam reconstruction activities.

Figure 3: Consumer Price Index (percentage change)



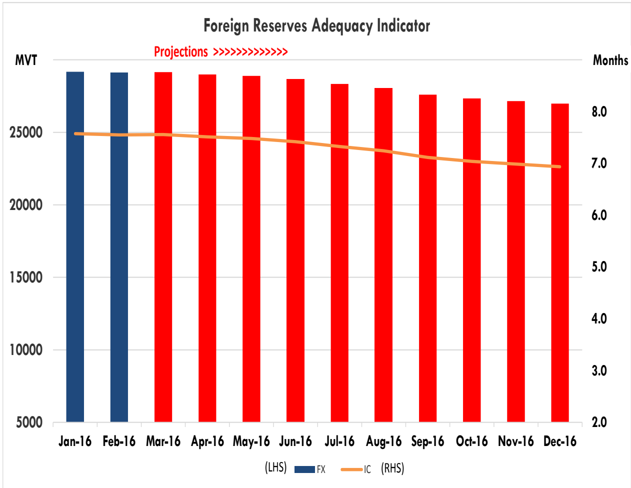
Source: VNSO, RBV Staff forecasts

b. Balance of Payments and International Reserves

The domestic economy is prone to natural disasters while at the same time, a net importer. As such, it is important that the Reserve Bank holds an adequate level of foreign reserves at all times, about 4 to 6 months import cover for the financing of imports and for meeting external obligations. Funds from donor funding towards development projects form the main source of foreign reserves. Even though some cyclone reconstruction activities will continue in 2016 and the commencement of donor funded projects from late 2015 may lead to a higher import demand, foreign reserves are forecasted to remain at comfortable above the minimum threshold level of 4 months throughout 2016.

Figure 4: Net Foreign Exchange & Import Cover

(Levels of FX & Months of Cover; monthly Data)



5.0 Monetary Policy Stance

Global economies performances continued to diverge with the US leading the growth in advance economies. In emerging economies, growth in China has slowed. This will affect China's commodity imports from Australia and New Zealand as the country's major trading partners and also Vanuatu as a key trading partner of China. Low crude oil prices will assist importing countries while exporting countries are affected due to around 50 percent decline in prices per barrel from June 2014. The cut in oil prices was brought about by oversupply. Global economic growth is forecasted to grow by 3.4 and 3.6 percent in 2016 and 2017 respectively.

This year marked the seventh year after the global financial recession that has caused extensive spare capacity which continued at varying degrees to this day. This has forced major economies to relax their monetary policies and some have undertaken quantitative easing. The US phased out its bond buying programme in October 2014 but continued to maintain rates below zero while the euro area has cut rates and have undertaken quantitative easing in the face of increasing unemployment and low inflation.

The Reserve Bank of Vanuatu undertook the following monetary policy changes after Tropical Cyclone Pam to help protect the country's macroeconomic and financial stability effective from March 24th, 2015:

- Reduced reserve requirements from 7% to 5%;
- It reduced the RBV policy rate from 5.5% by linking the rate to the RBV 91-day rate. As the 91-day rate stood at 1.9%, this amounted to a large reduction in the policy rate.
- It also indicated that it will review this penalty component with a view to reducing it further.
- To address a liquidity constraint in some of the banks following the Government decision to pay out 20% of members fund in the Vanuatu National Provident Fund, the RBV expanded collateral for borrowing under the RBV secured advance facility so that banks that are affected can be assisted with liquidity;
- To safeguard stability and market confidence, the RBV:
- Called the banks to assess the domestic banking sector immediately following the cyclone. It became clear the banking system was resilient because of strong business continuity planning and recovery centres which enabled them to re-open with minimal delays.
- Assured the banking system that it stood ready to meet their currency needs immediately after the cyclone.
- The RBV also issued press releases to the public concerning monetary policy changes it was undertaking and the strong foreign reserve buffer to safeguard public and market confidence.
- To safe guard foreign reserve levels, the RBV agreed with the IMF for balance of payment support under the IMF's Rapid Credit Facility and Rapid Financing Instrument.
- To support business sector recovery, the RBV developed a disaster credit facility under which it can lend to all businesses to assist with reconstruction.
- The RBV also approved and provided financial assistance relief of VT40 million, of which VT30 million was given to the Government for Pam reconstruction and rehabilitation of schools, while VT10 million will be administered by the RBV as direct assistance towards designated needs;

  During the March 2016 Monetary Policy meeting, the committee considered aligning interest rate policy changes approved by the Board in March 2015 meeting. Hence approved in the latest meeting are the following recommendation:

- The rediscount rate is now set at 100 basis points above the current 91 days RBV Notes interest rates.
- The secured advance facility interest rates is set at 250 basis points above the current 91 days RBV Notes.

  The Monetary Policy Committee (MPC) will continue to monitor developments and provide appropriate advice in the next MPC.

Although the condition of non-performing loans has not been fully assessed, the RBV will ensure that banks continue to maintain a high standard of loan assessment and have adequate provisions in place to ensure the soundness and confidence of the financial system. The Reserve Bank will be monitoring conditions closely and stands ready to respond if macroeconomic and financial conditions change.

Reserve Bank of Vanuatu, Monetary Policy Stance
A Chronology (in reverse order)

Effective Date	Financial/Economic Situation	Monetary Policy Stance
March 2016	Aligning interest rate policy changes approved by the Board in March 2015 meeting.	• The rediscount rate is now set at 100 basis points above the current 91 days RBV Notes interest rates. • The secured advance facility interest rates is set at 250 basis points above the current 91 days RBV Notes.
March 2015	Major Monetary Policy changes were undertaken following damages from Cyclone Pam: - The extent that losses arising from the impact of TC Pam were expected to erode a significant component of the sources of economic growth in 2015.	- Reduced reserve requirements from 7 percent to 5 percent. - The RBV policy rate reduced from 5.5 percent by linking the rate to the RBV 91-day rate. As the 91-day rate stood at 1.9 percent, this amounted to a large reduction in the policy rate. - The RBV expanded collateral for borrowing under the RBV secured advance facility so that banks that are affected can be assisted with liquidity
	To address a liquidity constraint in some of the banks following the Government decision to pay out 20 percent of members fund in the Vanuatu National Provident Fund.	- RBV called the banks to assess the domestic banking sector immediately following the cyclone.
	To safeguard stability and market confidence.	- RBV assured the banking system that it stood ready to meet their currency needs immediately after the cyclone. - The RBV agreed with the IMF for balance of payment support under the IMF's Rapid Credit Facility and Rapid Financing Instrument.
	To safe guard foreign reserve levels.	- The RBV developed a disaster credit facility under which it can lend to all businesses to assist with reconstruction.
	To support business sector recovery after TC PAM.	Total of VT40 million was approved, of which VT30 million was given to the

	The RBV also approved and provided financial assistance to the Government for reconstruction and rehabilitation purposes after Cyclone PAM.	Government for Pam reconstruction and rehabilitation of schools, while VT10 million was administered by the RBV as direct assistance towards designated needs.
June 2014	To address the uneven distribution of Liquidity in the Banking system	Reduction of liquid Asset Ratio from 7 percent to 5 percent.
March 2014	Three policy changes were approved: - Change in the level of excess reserves of commercial banks which the RBV targets in its conduct of monetary policy - Review the average import figure used to calculate months of import cover to reflect current developments in the trade sector - Maintained the current inflation framework of the Bank to achieve annual growth in the CPI- based inflation within the range of 0.4 percent.	Rediscount Rate remained at 5.5 percent
March 2013	Relaxation of monetary control to accommodate for low inflation, private sector credit and economic activity	Rediscount Rate reduced to 5.5 percent.
August 2011	Still too much excess liquidity in the domestic banking system - World economy begins to show tentative signs of recovery	SDR requirements increased from 6 percent to 7 percent, Rediscount rate remains at 6.00 percent
August 2010	High level of liquidity in the system – domestic sector recovery is happening	SRD requirements increased from 5 percent to 6 percent, Rediscount rate remains at 6.00 percent
January 2009	Low level of liquidity in the system coupled with possible slowdown in some sectors of the economy given the continued world economic meltdown	SRD requirements reduced from 8 percent to 5 percent, Rediscount rate remains at 6.00 percent
November 2008	Monetary Policy Loosening with the aim of increasing liquidity in the market	SRD requirements reduced from 10 percent to 8 percent rediscount rate remains at 6.25 percent.
September 2008		Rediscount rate increased 25 basis points to 6.25 percent
November 2007		Rediscount rate reduced to 6.00 percent. LAR reduced further to 8%.

February 2005		Rediscount Rate reduced to 6.25%.
January 2004		LAR reduced from 15 percent to 12 percent.
December 2001		Rediscount rate reduced to 6.50%.
February 2000		Reintroduction of the foreign exchange guidelines.
October 1999		Removal of guidelines of foreign exchange dealings.
May 1999		Secured Advance Facility was abolished. Rediscount facility and Repurchase Agreement amalgamated, rate remained 7.00 percent.
April 1999	Liquidity falls back to comfortable level after the crises.	SRD requirements rose to 10 percent. PRA abolished. LAR introduced at 15 percent.
February 1999	Excess liquidity rose, the aftermath of the VNPF riots.	RBV gradually phasing out the PRA and introduced SRD again. SRD remains at 6percent and PRA at 10 percent
December 1998	Still a result of the VNPF Liquidity crises	The RBV introduced the Rediscount and Repurchase Agreement facility at an interest rate of 7.00 percent
November 1998	VNPF Crisis cools down and liquidity almost return to normal	RBV starts gradually phasing out the PRA and reintroduce SRD. PRA was lowered to 10 percent and SRD was reintroduced at 6.0 percent.
April 1998	VNPF payout financed by issuance of Government bond. Too much Liquidity in the system due VNPF riot and withdrawals of member funds – approximately VT3.3billion liquidity injection	16 percent Prescribed Reserve Asset (a special form of Liquid Asset Ratio) replaces the 10 percent SRD The secured advance facility increased to 11.97 percent.
March 1998	The VNPF crises raises fear of capital outflows. This saw months of import cover reduced to less than four months.	Devaluation of Vatu currency by 20 percent. Three days later the Vatu currency was revalued. The RBV commenced its first issue of 91-day RBV note. RBV introduced temporary guidelines on foreign exchange dealings to Banks, that foreign exchange request would be honoured for current transactions while capital transactions are to be settled by the Bank.

January 1998	Vanuatu National Provident Fund Crisis begins	SRD remained at 10 percent.
1991-1997	Presumable the most stable period in the monetary and financial history of Vanuatu – relatively high economic growth	SRD remained unchanged at 10 percent
February - June 1988	Wide fluctuations in liquidity and other difficulties faced in the banking sector. Excess liquidity is a concern	First minimum reserve ratio introduced at 10 percent
March 1987	Commercial Banks tended to think the informal guideline was fully abolished that interest rates rise again	Issuance of firmer informal guideline to control interest rate spread –especially in productive sectors of the economy
1985-1986	Need to encourage export (copra & cocoa and other services including tourism)	Series of Currency Devaluation
February 1985	Increasing number of doubtful debts in the banking sector and absence of bankable projects	Intended to gradual abrogate the informal guidelines by first revoking restrictions to interest rates spread
1981 -1985	After Independence - A period of low liquidity, low economic growth and high interest rates spreads – RBV need to channel credit into productive sectors of the economy	Direct control/guidelines to credit rather than market-based policy instruments implemented (informal guidelines adopted) The secured advance facility was at 10.97 percent

We will continue to update this table in our next issue of Monetary Policy Statement