RESERVE BANK OF VANUATU

HALF YEAR MONETARY POLICY STATEMENT

SEPTEMBER 2016

Reserve Bank of Vanuatu

Half-Yearly Monetary Policy Statement

September 2016

- **Statement by the Governor**
- **Monetary Policy Objectives**
- **International Developments**
- **Domestic Overview and Macroeconomic Outlook**
- **Monetary Policy Stance**

Statement by Governor

Since the first bi-monthly statement of March 2016, global growth has been uneven and struggling to gain traction. World trade remains muted in an environment of weak demand.

With "Brexit" still very much unfolding, the extent of uncertainty complicates the already difficult task of macroeconomic forecasting. The baseline global growth forecast has been revised down modestly relative to the April 2016 WEO (by 0.1 percentage points for 2016 and 2017, as compared to a 0.1 percentage point upward revision for 2017 envisaged pre-Brexit). Brexit-related revisions are concentrated in advanced European economies, with a relatively muted impact elsewhere, including in the United States and China. (IMF, July WEO 2016)

In the United States, growth was slow once again in Q2 because of contracting industrial activity and exports.

GDP growth slowed sequentially in China in Q1, with retail sales, industrial production and fixed investment showing signs of weakness in recent months amidst still rising levels of indebtedness among households and corporations. While macroeconomic stability is returning to some emerging market economies geo-political tensions and high volatility in financial markets impede the resumption of momentum, and the outlook remains challenging.

The recent uptick in commodity prices is providing some relief to commodity exporters but political events could unsettle investor sentiment and consequently, capital flows could turn volatile again. For commodity importers, net terms of trade gains are moderating.

In Australia, recent data suggests that overall growth is continuing at a moderate pace, despite a very large decline in business investment. Inflation remains quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, these are expected to remain the case for some time.

On the domestic front, the Macroeconomic Committee (MEC) in its July meeting has revised upwards its 2015 GDP forecast from 1.3 to 1.7 percent due to impacts of TC Pam that contributed to modest growth in Services sector, a decline in growth of the Agriculture sector; but supported by a strong pickup in reconstruction and infrastructure project-related activities. Economic growth in 2016 is forecasted to pick up to 4.3% and 5.7% in 2017; supported by further growth in infrastructure construction activities and a pick-up in growth in the Services sector

Export prices of Vanuatu's major export commodities mainly copra and coconut oil rose (July 2016), but beef and cocoa prices continue to remain low. International prices of Vanuatu's major import commodities continued to remain low in the June quarter of 2016.

Total visitor arrivals into the country in the June quarter of 2016 stood at 71,639 of which 71 percent was made up of cruise visitors.

Annual (inflation) as measured by the Consumer Price Index (CPI), recorded -2.5 percent during the June quarter. The recorded deflation was a result of fluctuating price movements after the impact of TC Pam in 2015. Inflation is expected to be within target in the medium term.

The official reserves continue to remain healthy at 9 months of import cover in June and expected to be above the minimum threshold level in the medium term.

In the RBV Monetary Policy Committee meeting of August 2016, it noted that the Reserve Bank had followed a long period of policy accommodation which allowed liquidity build-up in the financial system. But given the resumption of growth, it stated that it would watch macroeconomic and financial developments in the months ahead with a view to responding as and when appropriate. Given this development, the Reserve Bank policy will stay on hold, but will monitor macroeconomic and financial developments for any further scope for policy action.

Simeon M ATHY
Governor
The Reserve Bank of Vanuatu

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 nine months, the country's import cover was around 7 months and is expected to be around this level in the medium term. Despite annual inflation reaching below 0 in the June quarter, due to the effect of a temporary supply shock from Cyclone Pam in June 2015, inflation is expected to rise to the mid-range of the RBV target by end 2016. The forecast for the next six months places both inflation and international reserves within the RBV target, however, risk to this forecast will come from any increase in the implementation of public funded projects and continuing reconstruction activities following TC Pam.

International Developments

Global growth is below trend despite being supported by unprecedented levels of monetary stimulus. Significant surplus capacity remains across many economies and, along with low commodity prices, is suppressing global inflation. Some central banks have eased policies further and long-term interest rates are at record lows. The prospects for global growth and commodity prices remain uncertain. Political risks are also heightened.

Among advanced economies, Eurozone GDP halved in the second quarter as transitory tailwinds disappeared and France's economy stalled. According to the Eurostat, the Eurozone economy increased a seasonally-adjusted 0.3% in Q2 over the previous quarter, which was half of Q1's 0.6% growth and marked the worst result since Q2 2014. Compared with the same quarter of 2015, GDP expanded by 1.6% in Q2, which was a notch down from the 1.7% tallied in Q1. Euro area annual inflation was 0.1% in June 2016, up from -0.1% in May

The U.S. economy firmed up in Q2 but growth was still disappointing. GDP is estimated at a seasonally-adjusted annualized rate of 1.1%. The result was above the 0.8% increase in Q1 and showed that private consumption continued to be the main source of growth. Data also showed that fixed investment and government spending contracted, while exports rebounded. Going forward, household spending is likely to continue boosting economic growth on the back of buoyant consumer confidence, solid employment and faster wage growth. Inflation has continued to run below the Federal Open Market Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports. The U.S. economy is expected to strengthen in the second half, buoyed by solid private consumption and a bounce-back in inventories. Nonetheless, a persistently strong U.S. dollar and prospects of further weakening in the global economy will restrain growth in export-oriented industries, while low oil prices will continue to weigh on fixed investment. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further.

The Chinese economy entered Q3 on a weaker footing following Q2's resilient growth fuelled by decisive policy support. The downward trend in fixed-asset investment persisted in July as the rebound in the real estate sector continued to fade and infrastructure investment decelerated sharply. Against this backdrop, the Chinese authorities will likely resort to further stimulus to ensure that the economy meets this year's growth target of between 6.5% and 7.0%. Growth in fiscal spending nearly doubled that of government revenue in the first seven months of the year, highlighting the government's proactive fiscal policy. Policy stimulus and a weak Yuan have the potential to boost growth throughout the rest of this year. On the downside, a rapid cooling in the property sector could prompt the Chinese economy to slow sharply. In a longer-term perspective, credit-fuelled growth has the potential to slow China's economic transition and exacerbate macroeconomic imbalances.

In Australia, according to the statement of the Monetary Policy decision released on 7th of June 2016, commodity prices in Australia are above recent lows, but this follows very substantial declines over the past couple of years. Australia's terms of trade remain much lower than they had been in recent years. Inflation has been quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time. Low interest rates have been supporting domestic demand and the lower exchange rate overall is helping the traded sector. Hence, the Board of the Reserve Bank of Australia decided to maintain the rate at 1.75 percent.

The Australian economy is forecasted to grow by 2½ per cent in both 2015-16 and 2016-17 — then to pick up to 3 per cent in 2017-18 as the detraction from falling mining investment eases.

Growth in the New Zealand economy is expected to remain supported by strong inward migration, construction activity, tourism, and accommodative monetary policy. However, low dairy prices are depressing incomes in the dairy sector and reducing farm spending and investment. High net immigration is supporting strong growth in labour supply and limiting wage pressure. House price inflation remains excessive and has become more broad-based across the regions, adding to concerns about financial stability. Headline inflation is being held below the target band by continuing negative tradable inflation.

Robust domestic demand is boosting New Zealand's economic prospects and accommodative monetary policy promises to fuel growth further in the coming months. On the downside, a strong currency has the potential to stifle export growth.

The outlook for other emerging market and developing economies remains diverse. In the Middle East, oil exporters are benefiting from the recent modest recovery in oil prices while continuing fiscal consolidation in response to structurally lower oil revenues, but many countries in the region are still plagued by strife and conflict

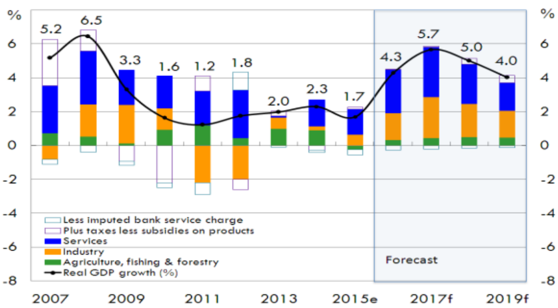
The OPEC Reference Basket has improved considerably from the low levels seen at the start of this year to average $43.21 per barrel in May. For the same month, ICE Brent averaged $47.65 per barrel and Nymex WTI averaged $46.68 per barrel. Crude oil prices were supported by the weaker US dollar, strong gasoline consumption in the US, various supply disruptions, the accelerated decline in US crude oil output, and forecasts for a sharp fall in overall non-OPEC oil supply this year. Record bullish bets by speculators for higher futures prices also helped support market sentiment

Most commodity price indexes rebounded in the second quarter of 2016, continuing their upward climb from January lows on improved market sentiment and tapering supplies. Oil prices jumped by more than a third due to supply outages and strong demand. Given this rebound and expected reduction in inventories during the second half of the year, the crude oil price forecast for 2016 is being raised to $43 per barrel (bbl) from $41/bbl in the April assessment, still a 15 percent drop from 2015.

The Domestic Economy

Further improvement in economic indicators continues to point towards a gradual improvement in domestic economic growth for 2016. Following the Macroeconomic Committee (MEC)[1] meeting in July, the Committee made further adjustments to its economic growth projections following revised information on growth prospects and implementation period of major donor projects. This saw further revision in the forecasted GDP growth figures. These adjustments include an upward revision in 2015 figures to 1.7 percent (previously 1.3 percent) associated mainly with stronger growth in services-related sectors (in particularly retail and wholesale trade)

Figure 1: Annual Real GDP Growth
(Contribution to growth; MEC Forecast)



Source: MEC forecast, 27 July 2016 Meeting

In the second quarter of 2016, partial indicators of domestic consumption and investment were supported by trend movement in imports for

[1] The next MEC meeting is due October 2016 to review growth forecasts.

home consumption which dropped over the quarter and year.

Prices of Vanuatu's major export commodities continued to show further improvements in the June quarter of 2016 when compared to 2015. Average price for copra rose 19 percent from the previous quarter and 38 percent over the year to US$1,019 per ton. Similarly, coconut oil price rose by 20 percent and 37 percent over the quarter and year, respectively to US$1,532 per ton. Average price for cocoa on international markets rose by 4 percent over the last quarter and 1 percent compared to same period of the previous year to 310 US cent per kilogram. The average price for beef on the international markets rose by 6 percent over the last quarter, however, it declined by 11 percent over the same period of the previous year to 396 US cent per kilogram.

International prices of Vanuatu's major import commodities continued to remain low. Average price for crude oil rose 37 percent over the last quarter, however it dropped by 26 percent over the same period of 2015 to US$45 per barrel. Average international rice prices rose by 9 percent and 5 percent over the year and last year, respectively to US$402 per ton.

Total air visitor arrivals during the June quarter stood at 20,983. This is an increase of 24 percent and 12 percent compared to previous quarter and corresponding quarter of 2015, respectively. Air visitor arrivals is seasonally high during the June quarter – a typical pattern for air visitor arrival into Vanuatu which reflects higher numbers holiday visitors from major markets of Australia and New Zealand who escape their cooler regions for the tropical climate such as the Pacific region. The increase over the year was in line with improved tourist arrivals in this particular period of the year compared a low number of arrivals in the same quarter of 2015 due to TC Pam.

Inflation, in the June Quarter 2016 Consumer Price Index (CPI) Release from the Vanuatu National Statistics Office (VNSO), recorded a 0.2 percent quarterly increase (lower from a 0.8 percent increase in the previous quarter). The increase was due to rise in prices for food, and clothing and footwear while communication, transport, miscellaneous, drinks and tobacco, and housing and utilities showed offsetting declines. Household supplies, health, recreation and education groups showed no change in price from the previous quarter. The annual inflation (annual percentage change in CPI) recorded a -2.5 percent decline from 2.0 percent recorded in the previous quarter. Port Vila recorded a -3.1 percent decline and Luganville recorded a 0.5 percent increase. The decline (deflation) was mainly due to declines in prices of food, housing utilities, health, communication and miscellaneous group while transport, education, household supplies, recreation, education, drinks and tobacco, and clothing and footwear recorded increase in prices.

The Banking sector activities continue to recover, though at a slower pace during the first six months of 2016 relative to the same period of 2015. Money Supply (M2) reached VT 69,324.4 million, an increase of 2.5% over the month and 10.8% from the previous year level due to increase in NFA. Net Foreign Assets (NFA) totaled VT31, 473 million, an increase of 11.8% from May and 32.6% from June 2015. The trend (YOY) reflects increase in both ODCs' and Reserve Bank NFA. Credit to "Other Nonfinancial Corporations" increased by 0.1% over the month, while it recorded a decline of 0.5% from June 2015. Loans to "Other Resident" sectors increase by 0.1% and 4.2% from the previous month and over the year from June 2015, respectively. Net Claims on Government (NCG) vis-à-vis the banking system declined or NCG position has improved in June 2016 and over the year from June 2015 to VT8,749.7 reflecting the Increases in Government deposits with both the ODCs and Reserve Bank. Excess reserves reached VT12,775.4 million as at 29th of July 2016 due to inflows of foreign exchange. Interest rates spread have widened by 0.23 percentage points to 8.18% at the end of June 2016. Weighted average deposits rates continued to remain low at 2.00%, while weighted average lending rates remained high at 10.18 %.

The central government recorded a fiscal deficit during the quarter. This deterioration reflected an exceptionally high accumulation of net acquisition of non-financial assets incurred during the period. Though the central government recorded a net operating surplus, the value recorded was inadequate to finance the high level of net acquisition of non-financial assets and led to an overall deterioration in the government's position. Otherwise total revenue performed exceptionally well, owing mainly to the receipt of the European Union budget support and inflows of funds received through the donor accounts. Similarly, total expenses have also increased during the quarter but are still within control.

On the external sector, developments in the balance of payments over the June quarter 2016 posted an overall surplus of 3.2 billion vatu. This represent an import cover of around 9 months. The domestic economy continues to grow gradually over the June quarter with imports picking up slightly by 6 percent indicating a slight increase in domestic demand for goods abroad. The services and secondary income accounts improved offsetting the slight increase in goods deficit and primary income balance and lowered the current account deficit by 12 percent. The financial and capital accounts increased as a result of increased financial assets and capital grants respectively.

Macro- Economic outlook

According to the latest meeting of the Macroeconomic Committee (MEC), real growth in 2016 was revised upwards to 4.3 percent (previously 4.0 percent) associated with projected recovery and improvement in the Agriculture sector associated with some key agricultural projects and improved export prices. Growth in 2017 was revised upwards to 5.7 percent (previously 4.3 percent). There has been a slight downward revision for 2018 to 5.0 percent (previously 5.1 percent). Growth in both years including 2016, reflected the improved implementation schedule of major donor-funded projects and private construction activities, and an improving services sector. MEC will further review developments in its October meeting.

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 the number of new policy proposals by ministries and legal obligations, which may result in unbudgeted expenses for the government.

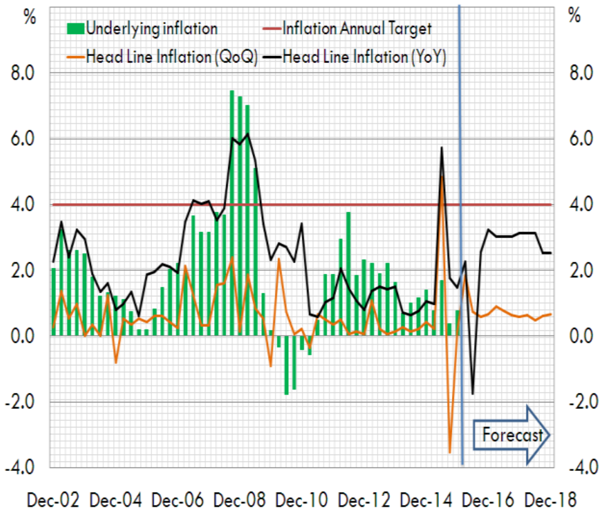
Inflation

The RBV targets an inflation range of 0-4 percent. The development in inflation up to the June quarter has remained within target with forecasts expected to increase to the mid-to-top range of the target in the medium term as a result of demand-driven pressures in the economy. However, the price offsets associated mainly with the low fuel and import prices are projected to exert downward pressures to those forecasts. The Reserve Bank will continue to monitor price development and their bearing on monetary policy.

The depreciation of the Australian dollar is welcoming, and has provided a cushion against pressure from increased import prices (specifically from Vanuatu's main trading partner Australia). The impact of the weaker Vatu against the US dollar, New Zealand dollar and Euro (when compared to a year ago) leading up to June 2016, is likely to push up import costs from major countries using these trade currencies), however the off-setting impact from the stronger Vatu against the Australian Dollar may put some downward pressure on cost of imports as around 40 percent of imports is sourced from Australia. The decline in global fuel price over the year is expected to contribute to low inflationary pressure from abroad. During the June quarter, the low fuel prices has reflected in the decline in electricity tariffs which saw the housing and utilities price group dropped by 1.1 percent (or a -2.4 percent over the same period of last year). The electricity price index dropped 11.2 percent compared to a year-ago. On the other hand, transport declined by 0.4 percent in the quarter (but actually rose 5 percent over the year which may imply that transport prices are sticky), and so far has reflected minimal pass-through (6 months lag of international-domestic price transmission) to domestic fuel prices. The fuel price index actually dropped by 21 percent compared to a year-ago. As expected, there are still more room for the transport sector (or other forms of private transport services) to absorb the weak global fuel prices as well as airline industry, that should trigger down to consumers.

Likewise, the risks of inflation fuelled by commodity prices are still on the downside. The latest data for the month of July 2016 (sourced from IMF commodity price indices) continue to show further ease in prices; generally a price decline in fuel, non-fuel, industrial inputs, agricultural raw materials, beverages and metal price; while food price showed a minimal increase.

Figure 2: Consumer Price Inflation
(Year on year growth (%); quarterly data)

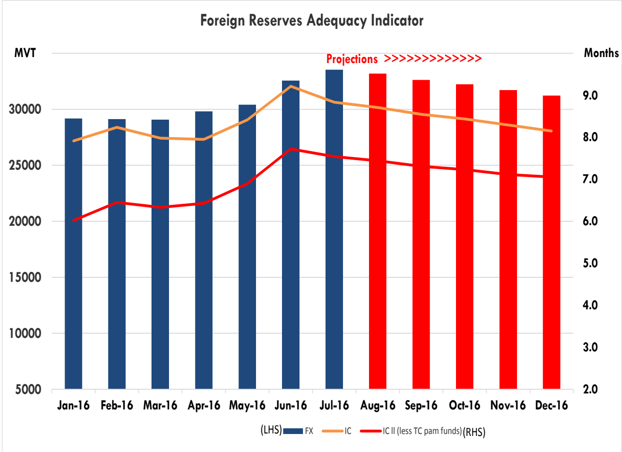


Source: VNSO, RBV Staff forecasts

Balance of Payments and International Reserves

While Vanuatu is a net importer, it is also a net borrower, and implies that it has an obligation to service its foreign liabilities. With these commitments, it is important that the Reserve Bank holds an adequate level of foreign reserves at all times. A minimum requirement is of 4 months import cover for the financing of imports and for meeting external obligations. Funds from development partners are the main source of foreign reserves. The implementation of Government infrastructure projects and TC Pam reconstruction activities, may lead to a higher import demand. However, foreign reserves are forecasted to remain 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

The IMF global growth forecasts for 2016 and 2017, are 3.1 percent and 3.4 percent, respectively. The outlook has worsened for advanced economies while it remains broadly unchanged for emerging market and developing economies.

Weak trade growth and financial distortions are exacerbating slow global economic growth. The global economy is projected to grow at a slower pace in 2016 than the previous year, with only a modest uptick expected in 2017. The outlook indicates that a low-growth trap has taken root, as poor growth expectations further depress trade, investment, productivity and wages.

Global economies' performances continued to diverge with the US, the country which leads in growth in advance economies. The U.S. economy is expected to strengthen in the second half, buoyed by solid private consumption and a bounce-back in inventories. Nonetheless, a persistently strong U.S. dollar and prospects of further weakening in the global economy will restrain growth in export-oriented industries, while low oil prices will continue to weigh on fixed investment.

In emerging economies, the Chinese economy is expected to decelerate in the coming months, and the Chinese authorities showed their willingness to avert any sharp downturn by shoring up the economy through cheap credit and policy support. Nevertheless, if sustained, credit-fuelled growth and government intervention have the potential to slow China's reforms and exacerbate macroeconomic imbalances.

In the RBV Monetary Policy Committee meeting of August 2016, it noted that the Reserve Bank had followed a long period of policy accommodation which allowed liquidity build-up in the financial system. But given the resumption of growth, it stated that it would watch macroeconomic and financial developments in the months ahead with a view to responding as and when appropriate. Given this development, the Reserve Bank policy will stay on hold, but will monitor macroeconomic and financial developments for any further scope for policy action.

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.
	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.	- 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.	- RBV called the banks to assess the domestic banking sector immediately following the cyclone.
	To safe guard foreign reserve levels.	- RBV assured the banking system that it stood ready to meet their currency needs immediately after the cyclone.
	To support business sector recovery after TC PAM.	- The RBV agreed with the IMF for balance of payment support under the IMF's Rapid Credit Facility and Rapid Financing Instrument.
	The RBV also approved and provided financial assistance to the Government for reconstruction and rehabilitation purposes after Cyclone PAM.	- The RBV developed a disaster credit facility under which it can lend to all businesses to assist with reconstruction. Total of VT40 million was approved, of which VT30 million was given to the 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.

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

CLASSIC PRINTERS VANUATU