



RESERVE BANK OF VANUATU

PRESS RELEASE

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MONETARY POLICY DECISION (23rd OF MAY 2013)

The monetary policy stance of the RBV remains unchanged with the Re-discount rate at 5.5 percent and the Statutory Reserve Deposit (SRD) ratio at 7 percent.

The Vanuatu economy continues to face a weak external environment. In Australia falling interest rates and weakening economic activity are likely to have a direct impact on our own economic prospects, while lower international commodity prices remain a challenge for rural exporters.

The latest domestic data suggests economic activity remains relatively subdued. The agricultural sector has weakened in line with international commodity prices, whilst construction sector activity has fallen following donor infrastructure spending and property market activity. In contrast, tourism and retail sectors appear to have been two important drivers of economic activity in recent months.

A cross-check with banking system activity underlines our overall assessment of economic activity. In particular, over the past few quarters we have seen a significant slowing in lending growth owing to fewer investment opportunities for commercial banks. Prudential indicators continued to remain sound; however non-performing loans are still a challenge for some banks. Over the coming months it is expected that prospects for domestic economic activity are likely to be tied to the projected upturn in donor and private infrastructure spending.

Of the Reserve Bank's key targets, annual inflation remains low at 1.4 percent in the first quarter, well within the Bank's target of 0 to 4 percent. Equally, Official Reserves in March reached 6.7 months of import cover, which remains significantly above the minimum threshold of 4 months and sufficient to meet our external obligations.

Based on these developments, the Monetary Policy Committee (MPC) decided that maintaining a loose monetary stance was appropriate to help create an environment for economic activity. This is reflected in MPC's decision in March to cut the re-discount rate from 6.0 to 5.5 percent. At the same time, the Statutory Reserve Deposit (SRD) still remains below 2008 levels, whilst the RBV continues to conduct its open market operations in a manner that reflects our current stance. The RBV will monitor developments closely and adjust this stance as and when it is deemed appropriate.

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Please note that the **Reserve Bank of Vanuatu** will now be publishing Monetary Policy Decision Press Releases following every Monetary Policy Committee (MPC) meeting.