



RESERVE BANK OF VANUATU

Press Release

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PRESS RELEASE

REDUCTION IN PRESCRIBED LIQUID ASSETS REQUIREMENT RATIO

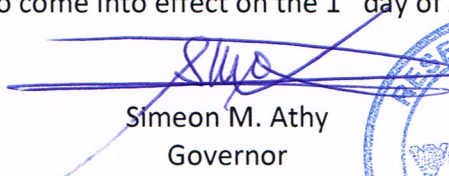
Liquidity risk is an inherent risk in banking, because banks are particularly vulnerable to sudden and unexpected demands for funds. These demands include withdrawal of funds by depositors and/or the need to meet other operational obligations. It is therefore important that all banks have sufficient liquidity to meet obligations as they fall due across a wide range of operating circumstances. The maintenance of an assured capacity to meet promptly all obligations as they fall due is fundamental to banking. It provides confidence in the banking system so the function of intermediaries can be effective. Since liquidity problems in one bank can have significant implications for other banks and for the financial system as a whole, liquidity management is pivotal to a bank's operations.

The intermediary function of banks is very important for economic development and growth. This link is effective if confidence is maintained and liquidity is adequate for further business growth. Shortage of liquidity can also force cost of funds (deposits) to increase which can adversely affect business investment, aggregate demand and economic output.

To address the liquidity risk, Reserve Bank has issued Prudential Guideline 3 – “Supervision of the Adequacy of Liquidity of Banks’ to all commercial banks. This Prudential Guideline requires respective Board and Management of each bank to implement and maintain a liquidity management strategy that is appropriate and prudent for the operations of their bank and to ensure that it has sufficient liquidity to meet its obligations as they fall due. As part of the bank's liquidity management, they are also obliged to maintain a minimum holding of 7 per cent of liabilities in specific high quality liquid assets at all times. This prudential facility is called Liquid Assets Requirement (LAR).

Since the last quarter of 2013, Banking System liquidity has been very high, but its distribution amongst banks has been uneven. The Reserve Bank has noted that the available facilities in the market have not been effective to address this imbalance in liquidity. In light of this, the Reserve Bank of Vanuatu has decided to reduce the LAR ratio from 7 percent to 5 percent. This reduction should provide additional funds for banks for their respective business activities.

This announcement is deemed to come into effect on the 1st day of July 2014.


Simeon M. Athy
Governor

