



# RESERVE BANK OF VANUATU

## PRESS RELEASE

---

**Press Release No: 07/2014**

**Telephone: (678) 2333**

**Facsimile: (678) 24231**

**Date: November 26, 2014**

**Email: resrvbnk.gov.vu**

---

### **RESERVE BANK OF VANUATU REDUCES ITS REDISCOUNT RATE**

In its meeting on November 7, 2014 the Board of the Reserve Bank of Vanuatu (RBV) reduced RBV's policy interest rate, which is its discount rate, from 5.50 percent to 5.25 percent. This decision is effective from the date of the meeting.

In considering the decision, the Board of Directors noted that improvements in the international economic conditions have been moderate and uneven especially in the euro area and Japan. The IMF in its October projections lowered its forecast for 2014 global growth (from July projections) for emerging markets as well as for the euro area and Japan. By contrast, economic performance and the outlook within the region, particularly in Australia and New Zealand remained sound which has augured well for the region and Vanuatu.

Domestically, macroeconomic fundamentals remain sound. Real economic output has rebounded from its recent lows and projected to grow by 3.7% in 2014 and higher from 2015 onwards as the pace of implementation of large donor-funded infrastructure projects are about to increase. As these wrap up, economic growth is projected to recede after 2017.

Domestic inflation remained at a low level of 0.8% year-on-year growth in September 2014. This is expected to increase in 2015 onwards as implementation of the donor-led projects picks up and from higher inflationary pressures from Australia as an important trade partner. However, it is projected to remain within the target band of 0-4% percent towards the end of 2015.

Official reserves are at levels sufficient to cover 7.2 months of import cover at the end of October 2014 and will remain comfortable until the end of 2014. However it will be more challenging over the next one to two years due to larger external debt repayment obligations.

The banking sector activities continue to remain weak due to the slowdown in both the private sector credit and continuous decline in net foreign assets. Prudential indicators continue to remain sound although non-performing loans continue to pose a challenge for some banks. On the other hand excess reserves remain at elevated levels.

The Government's fiscal position remains favourable for the year to September 2014, although it had resorted to monetary financing and domestic borrowing at times to supplement its budget.

Based on the above assessment, the Board judged that a reduction of 0.25 percentage points in the RBV policy rate to 5.25 percent was necessary in order to support growth as pressures on excess reserves are not expected until the first quarter of 2015 and inflation has remained at low levels and expected to remain within acceptable levels in the months ahead. The Bank will continue to monitor developments and adjust its monetary policy accordingly.

**Reserve Bank of Vanuatu**