



RESERVE BANK OF VANUATU

PRESS STATEMENT

Press Statement No: 01/2015

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Date: March 26, 2015

Distinguished members of the Press

We are reminded by Cyclone Pam that the Vanuatu economy is small, open and vulnerable to not only external shocks but also to natural disasters. It is no wonder we are ranked among the first 10 countries in the world with the highest vulnerability index and Port Vila being voted the world's most exposed city to natural disasters recently in the Natural Hazard Risk Atlas.

The impact of Cyclone Pam has shown (government, business houses and general community) that our level of preparedness in terms of having standard buildings and regular maintenance of our homes is not enough. Even modern structures like the new Reserve Bank of Vanuatu (RBV) building also sustained some damages. That is our main challenge now. Within the domestic financial sector, key financial institutions in the economy, notably the commercial banks, resumed operations immediately following Cyclone Pam, on a limited basis within the first few days or from a recovery centre sites in Port Vila. However, their operations are almost or are back to normal levels which show that our domestic financial sector has strong resilience. Such disasters also highlight the importance of the role of recovery centres in contingency planning and the importance of the RBV role in ensuring the importance of such centres in the event of disasters. The RBV stands ready to assist and work with the commercial banks to ensure a strong domestic financial sector during this difficult period.

The above achievement show that like any small island state, we are resilient and can bounce back quickly from natural disasters. I thank the financial community particularly the commercial banks for this achievement noting of course that there is a lot more yet to be done and achieve ahead. I would like to commend more specifically the Head of the Government for the excellent coordination of our donor partners' relief assistance and for the proper management of the process of rehabilitation and recovery of the disaster. At the same time, the reconstruction phase from the destruction will be daunting but yet needs to be addressed to enable folks to return home, children to return to proper classrooms, households to have power and safe drinking water, and businesses and farmers to restart operations.

On that very note, and as the country's sole monetary and supervisory authority, I am pleased to announce that the Board of the Reserve Bank of Vanuatu has approved an amount of VT40 million as the Bank's

contribution towards our shared endeavour to rebuild the nation. In reflecting the ongoing support that the Bank has been providing to our students during holiday breaks, the Board would further like the financial assistance to be utilized in the reparation of some of the school buildings and facilities that have sustained damages during the cyclone.

Prior to the disaster, Vanuatu had built up a comfortable level of macroeconomic buffers. Inflation was low, and the RBV had ensured that Vanuatu had sufficient official reserves of over six months worth of imports. At this stage, the RBV is making an assessment of the disaster to ascertain its macroeconomic impact and how it might affect our official foreign reserves levels in the months ahead. There is no doubt that destruction, especially to the export sector and in particular the important tourism sector, could be severe and there is an urgent need to address their recovery to safeguard Vanuatu's foreign reserves and its external position. However, Vanuatu's official foreign reserves at this stage are comfortable and are sufficient to meet Vanuatu's import requirements in the months ahead. At the same time, the RBV will respond appropriately if it sees the need to further safeguard Vanuatu's foreign reserves.

Prior to the cyclone, the Government's fiscal position had been favorable to the end of 2014. However, the reconstruction and rehabilitation process has implications for the fiscal position and cash-flow. Policy coordination among key policy setting institutions in Vanuatu will therefore be crucial in the months ahead in ensuring a smooth return to normalcy and in ensuring continued macroeconomic stability.

In addition, the Order recently issued by the Government for the Vanuatu National Provident Fund (VNPF) for the payout of 20% from the members' retirement funds, can affect the liquidity profile of the financial sector and hence domestic interest rates. It may also have implications for the financial operations of domestic financial institutions. At the same time, such large pay-outs can lead to loss of foreign reserves as happened during a similar pay-out in 1998.

As the country's monetary authority and regulatory authority, the Reserve Bank has a duty to respond to the situation in order to protect Vanuatu's macro economy and safeguard its financial stability. Given the extent of the devastation of Cyclone Pam, the RBV will continue a very accommodative monetary policy stance. At the same time it will respond to changes in the months ahead so as to protect the gains in macroeconomic buffers that it has been built up over the years.

In light of this, the RBV Board approved the following policy changes on March 24, 2015 which shall become effective immediately:

- That the RBV provide financial assistance relief of VT40 million, of which VT30 million will be given to the Government for the reconstruction and rehabilitation of schools, while VT10 million will be administered by the RBV as direct assistance to designated needs of the six provinces through-out Vanuatu;
- That the Statutory Reserve Deposit (SRD) requirement, which comprises reserve deposits of commercial banks held as required reserves by the RBV, be reduced from 7% to 5%;
- That the RBV Policy Rate be reduced from 5.25% and be tied to the RBV 91-day RBV Note rate;
- That the SRD holdings of commercial banks be included as part of security for the RBV Secured Advance Facility in addition to the commercial banks holdings of Government bonds and RBV Notes. Interest on the RBV Secured Advance Facility is based on the RBV Policy Rate plus a penalty component;
- That the RBV activate its Import Substitution and Export Financing Facility;

- That the RBV put in place other policies as it deems necessary in safeguarding Vanuatu's macroeconomic fundamentals.

Simeon Malachi ATHY
Governor