



# RESERVE BANK OF VANUATU

## PRESS RELEASE

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### **RBV Maintains an Accommodative Monetary Policy Stance**

The Reserve Bank of Vanuatu (RBV) wishes to announce that, at its meeting on the 2<sup>nd</sup> of October 2023, the Board of Directors of the RBV maintained the RBV policy rate at 2.25 percent and is taking steps to tighten open market operations in response to rising inflation.

The Board stated that it is confident that the Bank's current monetary policy stance remains appropriate to sustain the ongoing domestic economic recovery. However, domestic inflation has risen significantly this year, and the Board is committed to take counter measures to inflationary pressures in order to uphold its objective of price stability.

The Board observed the gradual recovery in the global economy due to tighter policy conditions, high debt levels, extreme weather events and further geo-political tensions. It noted that the domestic economy is still grappling with the aftermath of the COVID-19 pandemic, high prices and damages caused by the twin cyclones in early 2023. Growth in 2023 will be driven by the services and the industry sectors, whereas the agriculture sector is projected to decline.

Monetary conditions remained supportive of economic growth during the first half of 2023 and are expected to remain adequate in the short to medium term. Private sector credit growth is improving and net credit to government has increased to support recovery in the economy.

The Board noted that the domestic banking sector remained sound, profitable, adequately capitalized and highly liquid. Financial sector stability is expected to be maintained in the short to medium term.

In terms of monetary policy objectives, official foreign reserves reached VT72,830 million in August 2023, sufficient to cover approximately 9 months of imports, and expected to remain sufficient in the short to medium term. Inflation has significantly risen above the RBV target range of 0-4 percent, reaching 14.4 percent at the end of the June Quarter 2023. The surge in prices reflected, rising global food and energy prices, high import and transport costs, domestic supply constraint relating to TC Judy and Kevin and the minimum wage increase. Inflation is expected to remain above RBV target at the end of 2023 and into early 2024.

With the acceleration in inflation, the Board judged that it is appropriate to make further adjustments to the RBV's monetary policy to counter-act mounting inflationary pressures and ensure price stability in the medium term. The Board decided to increase the monthly volume of RBV notes issued in its open market operations (OMO) from VT100 million per month to VT200 million per month effective in October 2023.

The Board will continue to monitor risks and developments, and make adjustments to monetary policy accordingly in order to maintain financial and macroeconomic stability.

**Reserve Bank of Vanuatu**