

Honourable Minister of Finance and Economic Management, Hon. Willie Jimmy Tapangararua

All Director Generals,

Commissioner, VFSC

Finance Center Representatives

Ladies and Gentlemen

It is timely that we are here today to discuss the future of our finance centre. Global events have made it difficult to manage and grow this centre; however, we have shown that despite this we continue to have a thriving centre. This centre has been in existence since independence and has contributed a lot to our economy such as employment and attracting investment. For this centre to survive into the future we need to work together and adopt policies that are conducive to the growth of this centre.

Economy

Vanuatu continued to maintain a positive growth rate in 2007 and will continue to grow in 2008. It is recorded that the domestic economy has been expanded by about 6.6 percent in 2007 compared with a stronger growth in 2006 by about 7.2 percent. Growth in 2007 was broad-based, driven mainly from the services sector and the construction sectors. Agriculture sector also grew by about 4.1 percent in 2007, mainly due to improvements in copra and coconut oil that were buoyed by high copra prices. The growth we have seen in the last years is good news because for the first time since independence, growth has been sustained for a long time. I have no doubt to make mention that the Vanuatu Finance Sector has contributed significantly to this growth and in particular with regard to property development in Port Vila and Luganville. If we continue to sustain the level of growth into the future we will continue to attract quality players into the market and this is encouraging.

I am pleased to note that the robust growth rate of the world economy in 2006 by 5.4 percent and further growth in 2007 by 4.9 percent has to some extent contributed to our economic success in 2007. The global economic growth has eased in the last quarter of 2007 after a very strong growth in the first half of 2007 particularly due to the US sub prime mortgage crisis. However, emerging markets still remain the main engine of growth within the global economy. This growth is led by China and India, while Japan, on the other hand, has experienced a slower rate of growth. This is a good outlook since the economies of our trade partners are highly dependent on these economies.

Monetary

In terms of the Bank's monetary policy stance, the Bank has kept its official interest rate, the rediscount rate, unchanged at 6.00 percent. The official interest rate has been left unchanged since March 2006. The Board of Directors of the Bank took a decision to keep the official interest rate at 6.0 percent, due mainly to the comfortable level of reserves held by the Bank, covering about 8 months of imports while on the one hand the Board considered other factors including the increasing rate of inflation. The inflation rate at end 2007 was about 4.1 percent compared to 1.8 percent in 2006. The Bank's monetary policy stance was further supplemented by the ongoing open market operations of the Bank. Monetary policy in the first half of the year was generally accommodative with the volume of RBV Notes issued in the market being reduced significantly as the Bank undertook a review of the appropriateness of its monetary policy process.

Exchange rate has been stable over the year; however, Vatu has appreciated substantially against USD due to the strong depreciation of USD against the major trading currencies.

Supervision and Regulation

With regard to regulation and supervision, the Reserve Bank of Vanuatu continues to ensure that the financial system is sound and stable. Bank supervision and regulation has been ongoing with the Bank's regular on-site and off-site assessments. Domestic banks in 2007 are well capitalized and have recorded an increase of 6.9 percent to Vt69.6million in their total domestic assets from Vt65.1million in 2006. Earnings of banks have continued to show positive growth in 2007 and I believe this will continue to be the trend in 2008. Impaired assets have been on the downward trend in 2007. During the year, Vanuatu experienced two additional entries into the domestic banking sector. The Bank issued two domestic new licensees to Bred (Vanuatu) Limited, a subsidiary of Banque Populaire in France and Credit Corporation (Vanuatu) Ltd, a subsidiary of Credit Corporation (PNG) Limited. The new domestic banking licenses indicate a vote of confidence in our banking system.

On the international banks, there has been a new entrant in the market, marking a total of 8 banks. It has been noticed that a number of inquiries to establish international banks has generally increased in the past few years. Bank continues to monitor and ensure that all international banks are sound and to adhere to all relevant policies and legislations.

Other supervisory responsibilities cover the supervision of the Vanuatu National Provident Fund.

The Reserve Bank will continue to ensure that the entities that we supervise meet fit and proper criteria and to ensure that they operate within the accepted standard of good regulatory practices.

I would also like to report that in the IMF 2006 assessment on the implementation of the international standards of regulation and supervision, the supervision of banks has been

rated positively in terms of international standards. On this note, I would like to mention that there is ongoing discussion with the Government and the Vanuatu Financial Services Commission as to whether or not the supervision of insurance is assumed by the Reserve Bank of Vanuatu. I believe this forum will provide a further guide as to the Government policy on this matter.

It is important that we continue to develop the reputation of our financial sector. The domestic banking sector cannot thrive without a good financial system in place. For instance, when we were black listed by the OECD some of the banks found it difficult to maintain correspondent banking relationships and also overseas customers are finding it difficult to open bank accounts abroad. We need to address these challenges.

We need to set a vision and target such as 'Vanuatu to be a leading finance centre in the Pacific' and we should work towards developing the infrastructures in the areas of IT, human resources, and legal and policy directions. In Asia and the Middle East the financial centres are thriving and we need to learn from these centres. Having a domestic economy that is growing is already a major step but we need to review our competitiveness in the economy to ensure that we sustain and improve the level of our economy.

Last but not the least; I would like to say that the Reserve Bank of Vanuatu will continue to perform its responsibilities to ensure that Vanuatu will continue to maintain its sound financial system and its reputation internally.

I wish you all a fruitful discussion on our future of our finance center.

Thank you.