



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 147

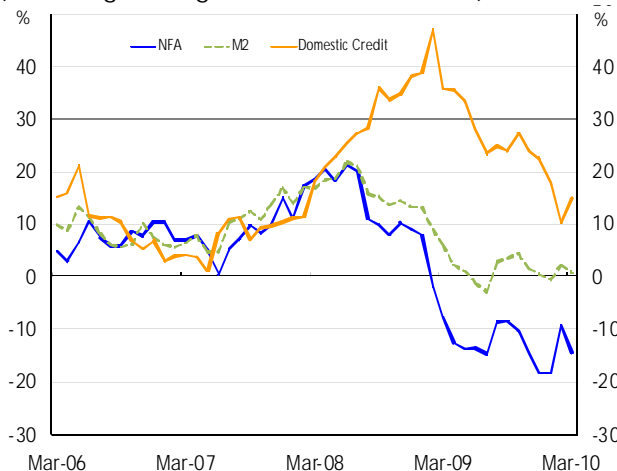
April 2010

MONETARY SURVEY

Following an increase of 2.0 percent recorded in February 2010, total money supply (M2) contracted by 3.4 percent during March to reach VT57,565.3 million. This monthly fall in M2 was attributed to a decline in net foreign assets (NFA), which more than offsets the increase in domestic credit. The monthly decline triggered the annual growth rate of M2 to decelerate further to 0.8 percent for the year to March 2010 as compared to the annual growth rate of 2.2 percent for the year to February 2010.

Chart 1 shows that the deceleration in the growth rate of broad money supply was driven by the declining trend of NFA, while domestic credit noted an acceleration in its growth rate

Chart 1: Total Money Supply
(Percentage Change; Year-on-Year Growth)



Source: Commercial Banks; Credit Corp; Reserve Bank

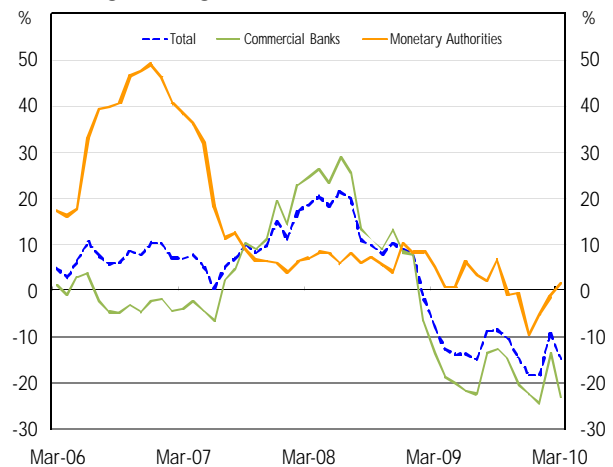
Determinants of Money Supply

Total NFA recorded another decline of 11.2 percent during March 2010, after a one off increase recorded in the previous month. The monthly decline stemmed mainly from a fall of 17.6 percent in commercial banks' NFA. The monetary authorities NFA remained virtually

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unchanged over the previous month. Likewise, the annual growth in NFA over the year to March 2010 remained at a negative growth rate of 14.5 percent.

Chart 2: Net Foreign Assets
(Percentage Change; Year-on-Year Growth)



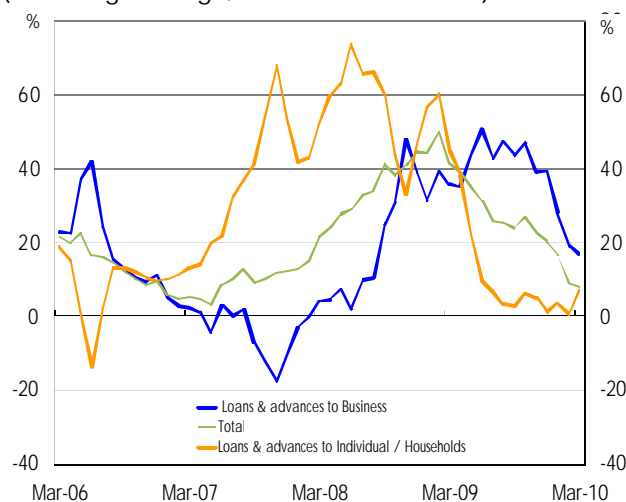
Source: Commercial Banks; RBV

Reserve Bank holdings of both foreign assets and foreign liabilities recorded declines during the month; however the decline in foreign liabilities outpaced the decline in foreign assets, causing the overall increase in the Bank's NFA. Net outflows of foreign exchange were recorded during the month, thereby contributing to the overall decline in foreign reserves. Despite the decline in foreign reserves, months of import cover remained comfortable at 5.9 months.

Commercial banks' holdings of NFA recorded another decline in March, following its increase in February 2010. The decline was attributed to the combined effects of the decrease in their holdings of foreign assets by 4.8 percent and a substantial growth of 29 percent in their holdings of foreign liabilities. The growth over the year to March 2010 continued to remain negative at -13.3 percent.

Total domestic credit expanded by 4.5 percent during the month under review, up from a 0.6 percent growth in February. The expansion in domestic credit was driven by increases in private sector credit, net claims on the government and claims on municipalities. Claims on non-financial public enterprises in contrast recorded a decline in growth rate during the month.

Chart 3: Private Sector Credit
(Percentage Change; Year-on-Year Growth)



Source: Commercial Banks; Credit Corp; RBV

Private sector credit¹ expanded by 2.8 percent in March 2010, up from an increase of 1.4 percent in February 2010. The year ended growth rose to 12.6 percent for March 2010, up from 10.8 percent over the year to February 2010. This indicates that economic activities are starting to pick up again as compared to three months ago.

Nearly all economic sectors contributed to this monthly growth, with housing and land purchase being the largest contributors. The transport, distributions, personal loans and manufacturing sectors made negative contributions to growth. Likewise, almost all sectors contributed positively to the annual growth rate with personal loans being the largest contributor. Housing and land purchases, manufacturing, fisheries, and transport made negative contributions to growth over the year.

Loans granted for business purposes and for personal uses increased by 0.8 percent and 5.1 percent respectively in March, contributing to the overall growth in private sector credit. The annual growth rate for business loans remained high at 17.0 percent despite the slight slowing. Loans to individual and household

¹ Credit to the private sector includes data from Commercial banks, Credit Corp and RBV.

accelerated further to 7.14 percent in annual terms (Chart 3).

Table 1 shows private sector credit by economic sectors over the month and the year.

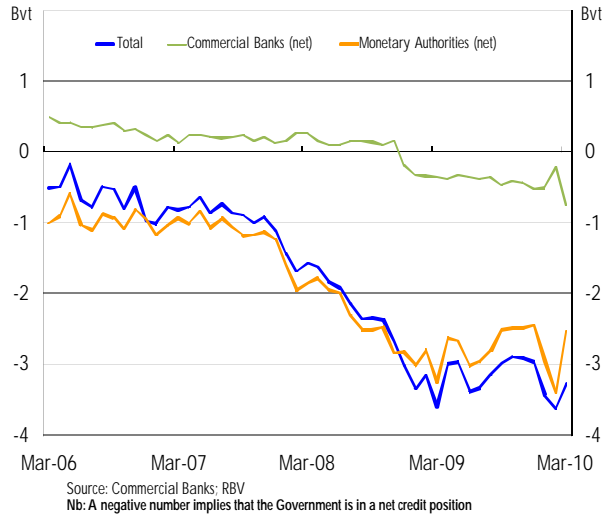
Table 1: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)			% Change	
	Mar-09	Feb-10	Mar-10	1 Month	12 Months
Agriculture	526.3	685.3	801.6	17.0	52.3
Fisheries	95.9	55.8	51.7	-7.4	-46.1
Mining & Quarring	107.7	87.0	88.4	1.5	0.0
Manufacturing	2232.1	1776.1	1744.2	-1.8	-21.9
Distribution	2919.9	3448.0	3402.5	-1.3	16.5
Tourism	2429.1	2659.3	2712.8	2.0	11.7
Entertainment & Catering	102.4	145.6	146.5	0.7	43.1
Transport	1703.3	1637.5	1564.7	-4.4	-8.1
Public Utilities	28.9	36.1	36.0	-0.2	24.7
Construction	4130.6	4871.7	4971.1	2.0	20.3
a) Central Government	4.6	0.0	1.3	0.0	0.0
b) Public Corporation	25.5	29.7	27.7	-6.7	8.6
Financial Institutions	202.5	199.4	191.9	-3.7	-5.2
Professional & Other Services	1606.3	1976.5	2000.5	1.2	24.5
Housing & Land Purchases	14178.2	12129.7	12785.7	5.4	-9.8
Other Personal	3427.7	6084.0	5863.7	-3.6	71.1
Miscellaneous	2211.7	3446.8	3981.8	15.5	80.0
TOTAL	35,932.7	39,268.5	40,372.1	2.8	12.4
Of which : Vatu	33279.3	32570.7	34252.8	5.2	29

Loans extended to non-financial public enterprises fell by 0.7 percent during the month, but remained 40.4 percent higher over the year. Loans to municipalities increased by 5.0 percent during the month, however recorded a decline by of 34.1 percent for the year-ended March 2010

The Government's net borrowing from the banking system increased by 9.3 percent during the month. The deterioration mainly reflected a substantial decline of 21.7 percent in Government deposits held with the Reserve Bank, which outweighed the large increase of 66.6 percent in its deposits held with commercial banks. Over the year to March 2010, the Government's net credit position vis-à-vis the banking system deteriorated, reflecting its deteriorating position with the Reserve Bank, while its net credit position with commercial banks remained favorable (Chart 4).

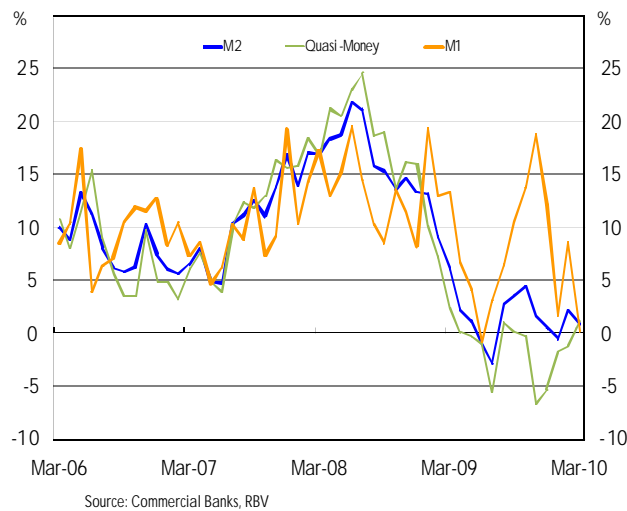
Chart 4: Net Lending Position of Government
(Vis-à-vis the Total Banking Sector; Billions of Vatu; Monthly Data)



Measures of Money Supply

Both components of M2; narrow money (M1) and quasi-money decreased during the month, therefore causing the overall decline in broad money supply (Chart 5).

Chart 5: Measures of Money
(Percentage Change; Year-on-Year Growth)



Narrow money (M1) fell by 5.4 percent in March, due to decreases of 2.6 percent and 5.9 percent in currency outside banks and demand deposits, respectively. This monthly decline triggered the annual growth rate of M1 to decelerate further to 0.2 percent over the year to March 2010, as compared to 8.5 percent over the year to February 2010. The annual growth trend in M1 implies that money flows into the economy over the year to March 2010 was rather slow as compared to over the year to the previous month.

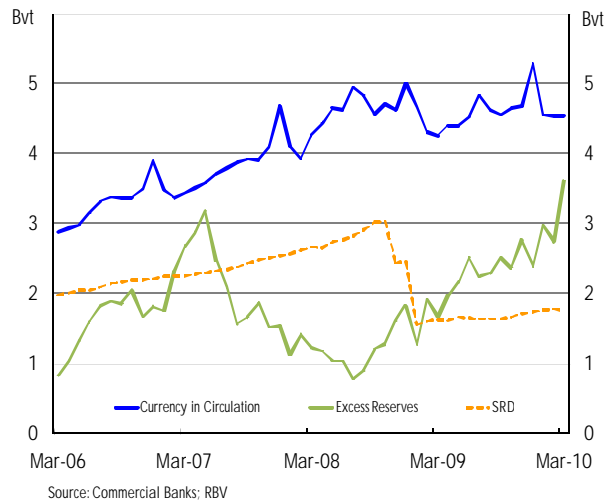
Although currency outside banks declined over the month, the year-on-year growth remained high at 9.1 percent. Both components of demand deposits fell during the month, with demand deposits denominated in the local currency falling by 1.5 percent, and the foreign currency denomination by 9.4 percent.

Quasi money fell by 2.2 percent during the month due to a decline of 9.9 percent in time and savings deposits denominated in foreign currency, which outweighed the increase of 3.6 percent in time and savings deposits denominated in the local currency.

Reserve Money

Reserve money² increased by 8.8 percent during the month and 31.4 percent over the year to March 2010. The increase during the month mainly reflected an increase of 31.6 percent in excess reserves; SRD and currency in circulation noted decreases of 1.2 percent and 0.1 percent, respectively. The increase in excess reserves of commercial banks reflected the deterioration in the government's net position with the Reserve Bank and the decline in currency outside banks.

Chart 6: Components of Reserve Money
(In Billions of VT)



Open Market Operations (OMO) – April 2010

The Bank conducted five OMOs during April 2010, where VT1,500 million worth of RBV notes were issued compared to VT900 million in March 2010.

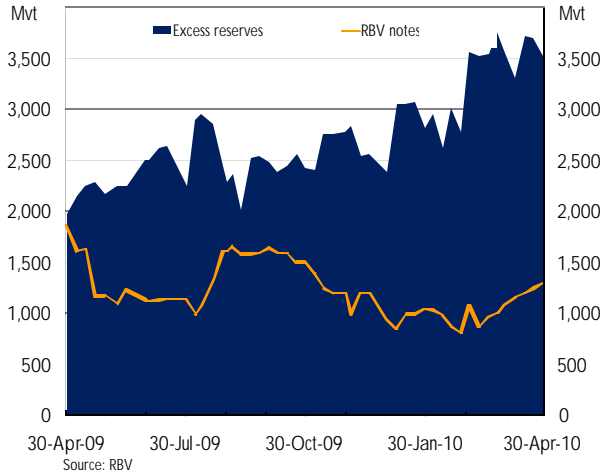
Total subscription received for these issues was VT3,350 million compared to VT2,315 million received during the previous month. This high level of subscription compared to the level of issue reflects the high level of liquidity in the system and tough competition in RBV notes market.

² Reserve money comprises of currency in circulation, Statutory Reserve Deposits (SRD) and Excess Reserves.

Allotments were made as follows:

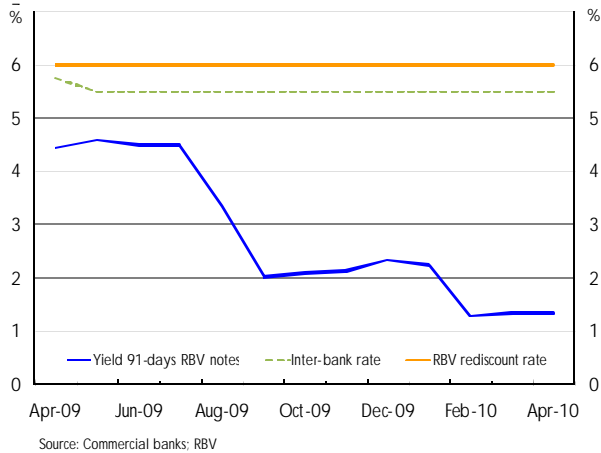
- 7 days: VT500 million
- 14 days: VT250 million
- 28 days: VT250 million
- 63 days: VT250 million
- 91 days: VT250 million

Chart 7: Commercial Banks Liquidity (Levels; Millions of Vatu; Weekly Data)



Total maturity for the month was VT985 million, leaving outstanding notes at VT1,300 million as of end April compared to VT1,085 million at the end of the previous month.

Chart 8: Short-term Interest rates



Yields on RBV Notes as of end April 2010:

Term	End Apr. 10	End Mar. 10
7 Days:	1.00%	0.94 %
14 days:	1.00 %	0.94 %
28 days:	1.00 %	0.94 %
63 days:	1.20 %	1.20 %
91 days:	1.35 %	1.35 %

The inter-bank rate remained at 5.5 percent.

Interest Rates

Commercial banks' deposit and lending interest rates have been maintained as in the previous two months See Table 2.

Table 2: Interest Rates				
Deposit Interest Rates				
	Savings	1-mnth	2-6 Months	Above 6 Months
Jan10	0.5-5.00	1.25-8.00	1.60-8.45	2.50-9.80
Feb10	0.5-5.00	1.25-8.00	1.60-8.45	2.50-9.80
Mar10	0.5-5.00	1.25-8.00	1.60-8.45	2.50-9.80
Advance Rates				
	Commercial	Personal	Housing	Agriculture
Jan10	9.50-23.0	5.5-26.5	8.90-13.0	9.99-19.5
Feb10	9.50-23.0	5.5-26.5	9.0-13.0	9.99-19.5
Mar10	9.50-23.0	5.5-26.5	9.0-13.0	9.99-19.5

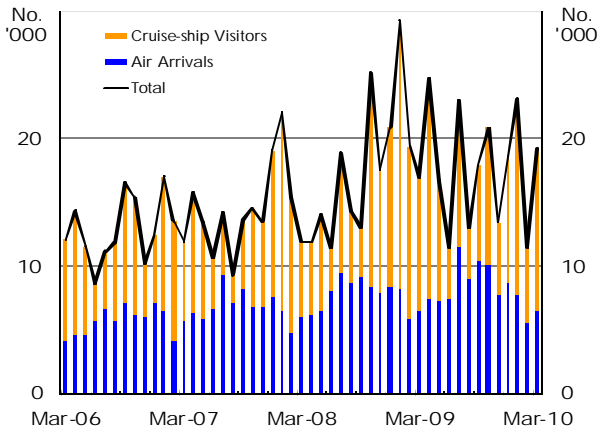
Tourism Update - March 2010

Tourism statistics compiled by the National Statistics Office for March 2010, show total non-resident visitor arrival (air plus cruise-ship visitors) to Vanuatu rose in the month by 68 percent to 19,254 visitors as both categories increased. Total visitor arrivals rose 13 percent over the year, mainly due to increases in day-visitors, with air arrivals slightly falling.

In March, Day-visitors (cruise-ship) more than doubled over the previous month, showing an increase of 118 percent to 12,784 visitors as the P&O Cruise scheduled trip calls to Port Vila rose from 2 calls in February to 6 calls in March, with various en-route outer-island port calls to Mystery Island and Pentecost Island (Land-diving festival). These 6 calls were made by Pacific Sun (2) from Sydney, Pacific Dawn from Brisbane (3) and Pacific Jewel from Sydney (1). Compared to March 2009 (5 calls with 10,421 visitors), day-visitors rose 23 percent over the year to March 2010.

Air arrivals, which typically spend more than a day in Port Vila and contribute to spending in hotels/restaurants sectors etc, rose 15 percent in the month to 6,470 visitors. Both the holiday and visiting friends and relatives categories improved over the previous month, though visitors arriving for conferences and business purposes fell. The increase in the month was led by the following major markets: Australia (50%), New Zealand (60%) and North America (2%) offsetting the negative growth reflected for New Caledonia (44%), Other Pacific Countries (47%), Europe (-14%), Japan (-14%), and Other Countries (-1%).

**Chart 9: Tourism Arrivals
(Number of Arrivals, Monthly Data)**



Source: National Statistics Office

Over the year to March 2010, air arrivals declined 1 percent, mainly due to reduced numbers in the in holiday and visiting friends and meeting /conference categories. The decline was led by the following major markets: Australia (-11%), Europe (-7%), Japan (-33%), offsetting the positive growth from New Caledonia (46%), Other Pacific Countries (45%), Other Countries (62%), North America (41%) and New Zealand (7%). The highest ranked visitor by type, holiday visitors (accounting for 81 percent of total air visitor arrivals in the month), rose 25 percent on the month and declined 1 percent over the year. Visitors arriving for meetings/conferences declined 25 percent over the month and rose 5 percent over the year. The average length of stay for visitors declined to 9.2 days, compared to 11.7 days in the previous month. Air arrivals to Port Vila (Bauerfield Airport), the major port of entry of air visitors, rose 16 percent in the month and 0.2 percent over the year. Visitor arrivals to Vanuatu's second town, Luganville (Pekoa Airport) recorded a strong decline in growth by 54 percent in the month and dropped 86 percent over the year

Vanuatu Tamanu Oil- A Potential Export Product

Reports said that Vanuatu-based skincare company Volcanic Earth had received a significant boost in export orders for Tamanu (Nabagura) Oil from the US and Canada following exposure on a US health and wellbeing TV show. The company, which had up to now been primarily targeted Australian and New Zealand export markets, was among the first to benefit from the AusAID-funded Enterprise Challenge Fund and disclosed that it had been attempting to break into the North American market for some time.

Whilst, in itself, sales of the product make up only a small proportion of Vanuatu's exports, as a sector the use of natural ingredients for the health and beauty market shows significant potential. The appearance of

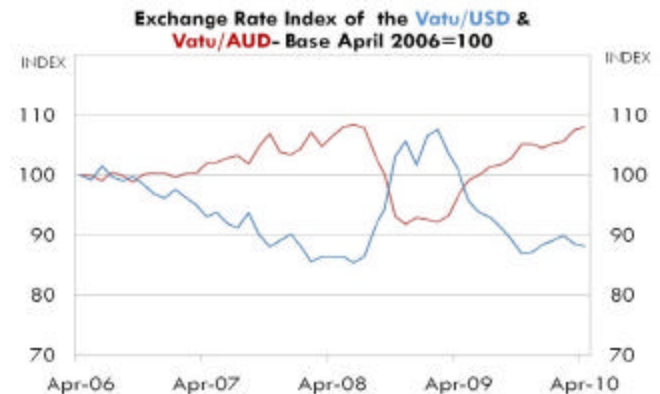
the Tamanu Oil product on US television is expected to go some way to promoting increased exports of the product and further developing the non-traditional export sector. The raw ingredients for production of the oil are gathered from outer islands, and is therefore hoped to provide a boost to rural incomes and offset some of the volatility in export commodity prices. (Web wire April 25th, 2010)

Exchange Rate Developments – April 2010

The exchange rate developments of the Vatu vis-à-vis its major trading currencies for the month of April are shown in the following table and charts.

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Apr-10	97.62	90.53	70.64	129.11
1 month ago	98.05	90.06	69.6	131.55
%?	0.4	-0.5	-1.5	1.9
3 months ago	98.65	88.19	69.49	137.77
%?	1.0	-2.7	-1.7	6.3
12 months ago	111.58	80.96	63.17	147.96
%?	12.5	-11.8	-11.8	12.7

Note : (-) depreciation of vatu



During the month, the Vatu appreciated against the US dollar (USD) and Euro (EUR), but depreciated against the Australian dollar (AUD) and New Zealand dollar (NZD). All of these movements reflect a continuation of exchange rate trends over the last year; with the USD and EUR both depreciating against the Vatu over the previous three months and year, and the AUD and NZD both appreciating against the Vatu over the previous three months and year.

Gains against the USD were driven by continued mixed macroeconomic data from the world's largest economy. Whilst indicators have suggested a pick-up in consumer spending, unemployment has remained in excess of 9.5 percent and economic growth is expected to slow as government stimulus measures are removed over the next year.

The AUD was strengthened by robust commodity prices, export demand from Asian trading partners, as well as monetary policy tightening by the Reserve Bank of Australia. Economic growth and inflation returned close to trend levels, fuelling expectations that the central bank would further increase interest rates to fully normalise policy.

Headline data from New Zealand showed economic activity on an increasing trend and growing inflationary pressures. Correspondingly, the Reserve Bank of New Zealand is expected to begin lifting interest rates from the middle of 2010.

The value of the EUR was repeatedly impacted by concerns about sovereign debt in a number of member states and mixed signals regarding policy response. Ratings agencies downgraded three member states citing increasing worries about the affordability of debt under current market conditions. The currency union was further weakened by data showing zero-GDP growth in the final quarter of 2009 and increasing unemployment rates in the first months of 2010.

MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Mar-09	Dec-09	Feb-10	Mar-10	%Change		
					1 Month	3 months	12months
Foreign Assets	12238.7	14554.3	15151.6	14986.2	-1.1	3.0	22.4
Foreign Exchange 1/	11577.6	13928.0	14527.6	14362.2	-1.1	3.1	24.1
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	226.9	244.1	241.8	241.8	0.0	-1.0	6.6
Claims on Government	620.1	618.5	452.8	621.0	37.2	0.4	0.2
Advances to statutory Bodies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advances to commercial Banks	500.0	0.0	0.0	0.0	0.0	0.0	0.0
O/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	1823.4	1929.1	2091.4	1961.1	-6.2	1.7	7.6
Total Assets	15182.2	17101.9	17695.8	17568.3	-0.7	2.7	15.7
Reserve Money	7541.6	9420.8	9101.6	9906.8	8.8	5.2	31.4
Currency outside Banks 3/	3249.5	3916.5	3638.3	3545.2	-2.6	-9.5	9.1
Commercial Banks Cash	1008.9	1365.2	911.5	994.5	9.1	-27.2	-1.4
Commercial Banks Deposit with RBV	3283.2	4139.1	4551.8	5367.2	17.9	29.7	63.5
Foreign Liabilities 2/	163.4	2954.7	2873.5	2706.2	-5.8	-8.4	1555.8
Government Deposits, of wich	3869.9	3057.7	4029.3	3156.9	-21.7	3.2	-18.4
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	2012.7	946.4	817.6	1082.5	32.4	14.4	-46.2
Other Liabilities	1594.6	722.3	873.9	715.9	-18.1	-0.9	-55.1
TOTAL Liabilities	15182.2	17101.9	17695.8	17568.3	-0.7	2.7	15.7

1/ Reserve Bank's foreign currency accounts with residents commercial banks are included in foreign exchange holdings of the Bank.

2/ Including deposits by the Asian Development Bank and the Commission of the European Communities (CEC)

3/ Currency Outside Banks was revised to comply with the Monetary and Financial Statistics Manual

TABLE A2 : CONDENSED BALANCE SHEET OF COMMERCIAL BANKS IN VANUATU

END OF PERIOD	Mar-09	Dec-09	Feb-10	Mar-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	1008.9	1365.2	911.5	994.5	9.1	-27.2	-1.4
Deposits with RBV	3283.2	4139.1	4551.8	5367.2	17.9	29.7	63.5
RBV Notes	2012.7	946.4	817.6	1082.5	32.4	14.4	-46.2
Foreign Assets, of wich	31631.8	30350.3	29518.5	28100.2	-4.8	-7.4	-11.2
Claims on non-residents banks	30367.9	27552.0	26190.9	25353.3	-3.2	-8.0	-16.5
Claims on Private sector	35841.6	39282.6	39153.6	40257.3	2.8	2.5	12.3
Claims on Government	434.5	434.5	587.0	587.0	0.0	35.1	35.1
Other claims 1/	91.1	123.7	114.9	114.8	-0.1	-7.2	25.9
Other Assets	3051.9	3884.8	3047.2	3111.5	2.1	-19.9	2.0
TOTAL ASSETS	77355.6	80526.6	78702.1	79614.9	1.2	-1.1	2.9
Demand Deposits, of wich	17561.4	18531.8	18400.4	17307.0	-5.9	-6.6	-1.4
Foreign currency	9351.4	10906.6	10266.8	9297.3	-9.4	-14.8	-0.6
Savings deposits, of which	3965.6	4327.9	4512.7	4551.1	0.9	5.2	14.8
Foreign currency	260.9	280.8	406.1	406.7	0.1	44.8	55.9
Time deposits, of which	32326.5	33369.5	33029.3	32162.0	-2.6	-3.6	-0.5
Foreign Currency	16334.7	16037.3	15692.8	14097.8	-10.2	-12.1	-13.7
Foreign Liabilities, of which	8675.5	8540.9	8093.8	10438.2	29.0	22.2	20.3
Non residents Banks	1621.1	3381.8	3048.2	3425.1	12.4	1.3	111.3
Government Deposits	791.2	966.2	799.6	1332.1	66.6	37.9	68.4
Credit from RBV	500.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders'	13535.4	14790.4	13866.3	13824.5	-0.3	-6.5	2.1
TOTAL LIABILITIES	77355.6	80526.6	78702.1	79614.9	1.2	-1.1	2.9

1/ Includes: Claims on other Financial Institutions and Interbank Claims, Claims on Municipalities and Claims on Public Enterprises

Nb: Figures highlighted have been revised

TABLE A3 : MONETARY SURVEY: A CONSOLIDATED STATEMENTS OF ACCOUNTS OF THE MONETARY INSTITUTIONS

END OF PERIOD	Mar-09	Dec-09	Feb-10	Mar-10	%Change		
					1 Month	3 months	12 Mois
1. Net Foreign Assets	35,031.5	33,409.0	33,702.9	29,942.0	-11.2	-10.4	-14.5
Monetary Authorities (Net)	12,075.3	11,599.7	12,278.2	12,280.0	0.0	5.9	1.7
Commercial Banks (Net)	22,956.3	21,809.4	21,424.7	17,662.0	-17.6	-19.0	-23.1
2. Net Domestic Assets	22,116.8	26,736.6	25,877.9	27,623.3	6.7	3.3	24.9
(a) Domestic Credit	32,906.8	37,134.5	36,199.3	37,835.1	4.5	1.9	15.0
(i) Net claims on government	(3,606.6)	(2,970.9)	(3,789.0)	(3,280.9)	13.4	-10.4	9.0
Monetary Authorities	(3,249.8)	(2,439.2)	(3,576.5)	(2,535.9)	29.1	-4.0	22.0
Commercial Banks	(356.7)	(531.7)	(212.6)	(745.0)	-250.5	-40.1	-108.8
(ii) Claims on Non financial Public enterprises (NFPE)	73.5	107.3	103.8	103.1	-0.7	-3.9	40.4
(iii) Claims on Private Sector (1)	36,422.2	39,981.7	39,873.4	41,001.3	2.8	2.6	12.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	17.7	16.5	11.1	11.6	5.0	-29.3	-34.1
(b) Other items (net)	(10,790.0)	(10,397.9)	(10,321.4)	(10,211.8)	-1.1	-1.8	-5.4
3. Total Assets= Total Money Supply (M2)	57,103.0	60,145.6	59,580.7	57,565.3	-3.4	-4.3	0.8
(a) Money (M1)	20,810.9	22,448.3	22,038.7	20,852.2	-5.4	-7.1	0.2
(i) Currency outside Banks	3,249.5	3,916.5	3,638.3	3,545.2	-2.6	-9.5	9.1
(ii) Demand deposits	17,561.4	18,531.8	18,400.4	17,307.0	-5.9	-6.6	-1.4
(b) Quasi-money	36,292.1	37,697.4	37,542.0	36,713.1	-2.2	-2.6	1.2
(i) Saving Deposits	3,965.6	4,327.9	4,512.7	4,551.1	0.9	5.2	14.8
(ii) Time Deposits	32,326.5	33,369.5	33,029.3	32,162.0	-2.6	-3.6	-0.5

1) Include RBV staff loans and credit corp

Nb: Figures highlighted have been revised.

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Mar-09	Dec-09	Feb-10	Mar-10
1. Net Foreign Assetd	(2,100.0)	859.4	940.1	(3,760.9)
Monetary authorities	(341.3)	(157.0)	372.2	1.8
Commercial Banks	(1,758.6)	1,016.3	567.9	(3,762.7)
2. Domestic Money creation	942.2	(675.2)	205.1	1,745.4
(a) Domestic credit	(20.4)	(1,066.0)	201.7	1,635.8
Net Claims on Government	(462.5)	(53.5)	(347.5)	508.1
Monetary Authorities (net)	(447.7)	50.9	(634.2)	1,040.6
Commercial Banks (net)	(14.8)	(104.4)	286.7	(532.5)
Claims on non financial public enterprises	1.4	(1.0)	(1.7)	(0.7)
Claims on Private sector	437.6	(1,015.3)	554.8	1,127.9
(b) Other Domestic factor	962.6	390.8	3.4	109.6
3. Money Supply creation (M4)	(1,203.1)	184.2	1,145.3	(2,015.4)
Money (M1)	507.3	(559.4)	1,039.5	(1,186.5)
Quasi-money	(1,710.4)	743.6	105.8	(828.9)