



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 150

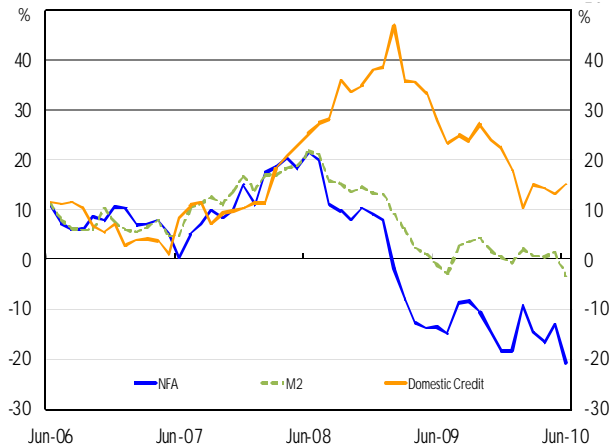
July 2010

MONETARY SURVEY

Broad money supply (M2) contracted by 2.5 percent during June 2010, following an increase of 0.5 percent during May. The decline in growth was mainly attributed to a decline in the net foreign assets (NFA) of commercial banks, which outweighed the growth in domestic credit. This monthly decline triggered the annual growth rate of M2 to decline by 3.3 percent over the year to June 2010, as compared to a growth of 1.6 percent recorded over the year to May 2010.

Chart 1 shows that the trend in the annual growth rate of broad money supply was largely determined by the movement in NFA.

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



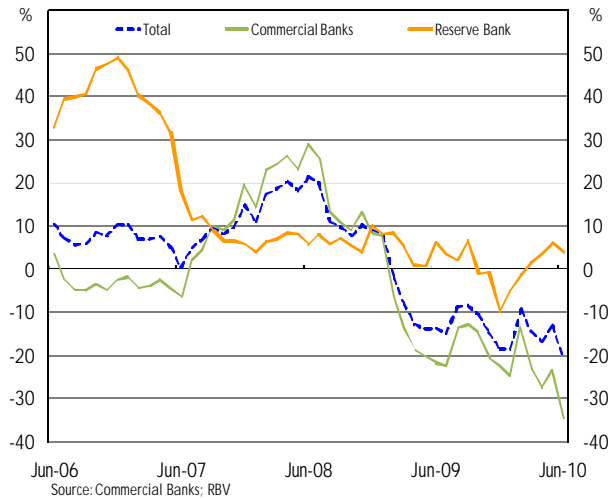
Source: Commercial Banks; Credit Corp/Reserve Bank

Determinants of Money Supply

Total NFA contracted by 5.0 percent during June 2010. This was mainly driven by a decline of 10.9 percent in commercial banks' NFA, which offset the 3.0 percent increase in the Reserve Bank's NFA. Foreign exchange liquidity, in particular with commercial banks, has been declining over the past year, with the annual growth in total NFA over the year to June 2010 remaining negative at 20.9 percent.

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



Source: Commercial Banks; RBV

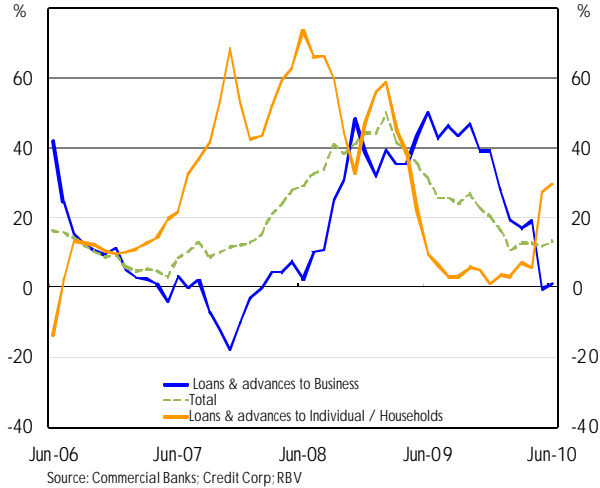
The increase in the NFA position of the Reserve Bank of Vanuatu continued to reflect improvement in net inflows of foreign exchange during the month. The bulk of these inflows were via cash and project grants on behalf of the Government. These inflows offset outflows of foreign exchange, primarily for import financing by commercial banks. The improvement in net foreign assets boosted the estimated months of import cover to 6.1 months in June from 5.8 months in May 2010.

Commercial banks' NFA position deteriorated during the month as a result of the combined effects of declines in their foreign assets by 4.6 percent and an increase in their foreign liabilities by 5.3 percent. Overall, this development implies that commercial banks are partly utilizing their foreign currency liquidity to cater for imports, as would be consistent with the increase in their net purchase of foreign exchange from the Reserve Bank. Over the year to June 2010, the growth in commercial banks' NFA remained negative at 34.5 percent.

Domestic credit increased by 1.0 percent in June and 15.1 percent over the year to June 2010. The growth

during the month was mirrored in increases in private sector credit and credit to municipalities. Net claims on the government and claims on non-financial public enterprises recorded declines.

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



Private sector credit¹ expanded by 1.8 percent during June, up from 0.3 percent growth recorded in May. This monthly growth triggered the annual growth rate over the year to June 2010 to increase to 13.4 percent up from 11.9 percent recorded over the year to May 2010.

The monthly growth in loans was contributed to by almost all sectors of the economy. The largest contributor to growth was the construction sector, followed by housing and land loans and personal loans. The professional and other services and transport sectors made negative contributions. Likewise, almost all economic sectors made positive contributions to the annual growth, with personal loans being the largest contributor to growth followed by miscellaneous sectors and construction, while transport and manufacturing sectors made negative contributions.

The monthly growth in credit was mirrored in increases in loans to businesses and personal loans by, almost 2.00 percent each. The annual growth rate follows the same pattern, with personal loans accelerating by 29.7 percent, while business loans have picked up growth to 1.2 percent, from a decelerating growth over the year to the previous month (Chart 3).

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

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

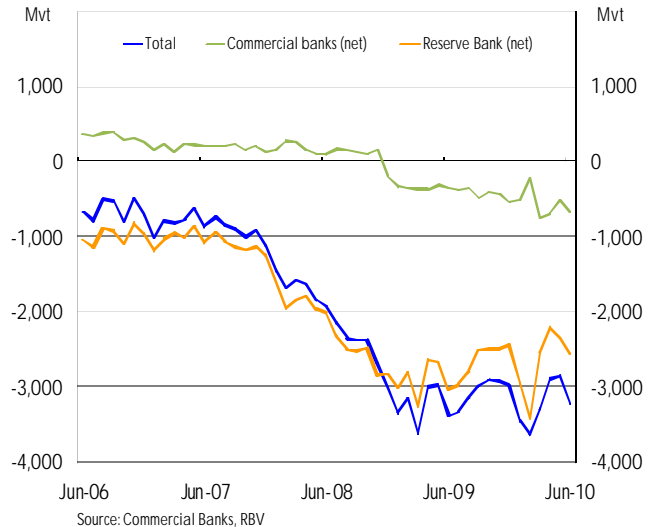
Table: 1 Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)			% Change	
	Jun-09	May-10	Jun-10	1 Month	12 Months
Agriculture	551.2	777.3	798.8	2.8	44.9
Fisheries	97.4	50.8	58.1	14.3	-40.3
Mining & Quarring	113.9	90.4	91.2	0.8	-20.0
Manufacturing	2242.2	1609.4	1592.8	-1.0	-29.0
Distribution	3002.6	3163.0	3173.0	0.3	5.7
Tourism	2464.4	2662.8	2710.7	1.8	10.0
Entertainment & Catering	132.8	144.9	144.4	-0.3	8.8
Transport	1600.4	1562.5	1491.5	-4.5	-6.8
Public Utilities	36.4	35.8	38.3	6.9	5.3
Construction	4573.7	4855.9	5123.3	5.5	12.0
a) Central Government	1.4	0.0	2.4	0.0	69.3
b) Public Corporation	25.0	36.4	24.4	-32.8	-2.1
Financial Institutions	192.1	180.4	180.9	0.3	-5.8
Professional & Other Services	1686.5	2029.7	1962.8	-3.3	16.4
Housing & Land Purchases	13714.5	12945.4	13150.6	1.6	-4.1
Other Personal	3943.2	6665.1	6880.6	3.2	74.5
Miscellaneous	2642.9	4133.0	4261.6	3.1	61.2
TOTAL	37,020.4	40,943.0	41,685.6	1.8	12.6
Of which : Vatu	33943.9	34555.5	35064.8	1.5	3.3

Loans extended to municipalities increased by 21.7 percent and 15.6 percent during the month and year respectively, while loans to non-financial public enterprises declined by 0.8 percent and 10.9 percent over the month and year, respectively.

The Government's net credit position vis-à-vis the banking system improved in June 2010. This is represented by a decline in the Reserve Bank and commercial banks' net claims on the government by 8.8 percent and 32.8 percent, respectively. This improvement reflected an accumulation of deposits held by the Government with the banking system during the month. However, the Government's net credit position deteriorated over the year to June 2010 (Chart 4).

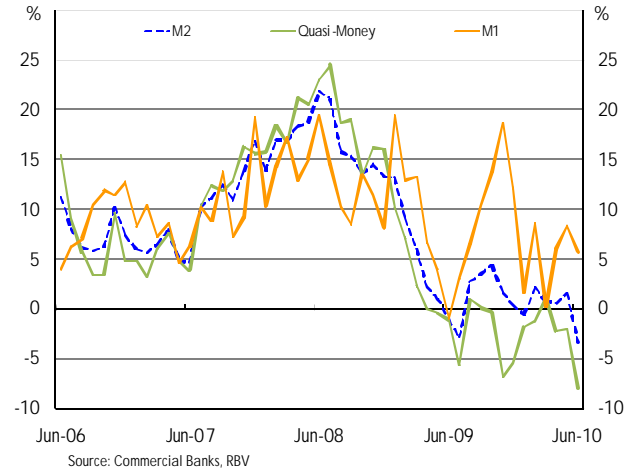
Chart 4: Net Lending Position of Government
(Billions of Vatu; Monthly Data)



Measures of Money Supply

The contraction in M2 in June was reflected in its two components, with the narrow money (M1) falling by 0.9 percent and quasi-money by 3.5 percent. Over the year to June 2010, the decline in M2 was mainly reflected in quasi-money which fell by 8.0 percent, outweighing the growth of 5.7 percent in M1 (Chart 5).

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



The decline in M1 was due to a fall of 1.4 percent in demand deposits, which offset the increase in currency outside banks. Demand deposits denominated in foreign currency fell by 5.2 percent, therefore contributing to the overall fall in demand deposits, while its local currency component remained virtually unchanged. The monthly trend in demand deposits could be partly due to residents utilizing their demand deposits in foreign currency to accommodate overseas transactions. The increase in currency outside banks was associated with the increase in private sector credit.

The decline in the level of interest bearing deposits reflected falls in time and savings deposits denominated in both the local and foreign currencies by 0.6 percent and 8.0 percent, respectively. Over the year, the growth of interest bearing deposits remained negative at 8.0 percent.

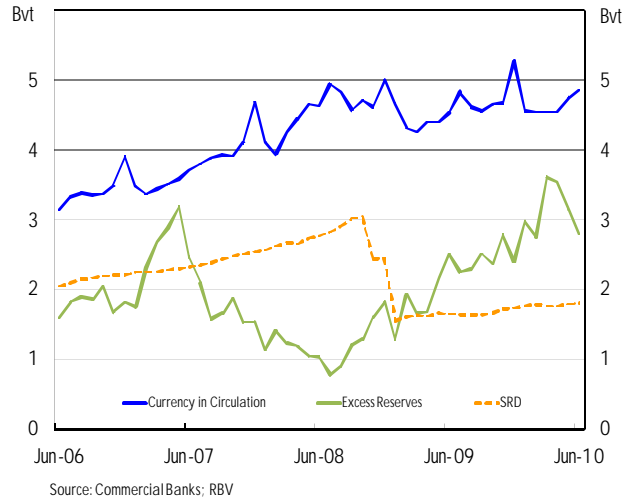
Reserve Money

Reserve money² declined by 2.1 percent in June, but was higher by 8.7 percent over the year. The decline during the month was due mainly to a fall in excess reserves by 11.0 percent, which offset the increases of 1.9 percent and 0.4 percent in currency in circulation and SRD, respectively. The decline in excess reserves of commercial banks can be attributed to (i) the Reserve Bank being aggressive in its open market operations as

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

reflected in the increase in outstanding RBV notes; and (ii) the increase in private sector credit.

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



Open Market Operations (OMO) – July 2010

The Bank conducted four OMOs during July 2010, where VT1,650 million worth of RBV notes were issued, compared to VT2,150 million in June 2010.

Total subscription received for these issues was VT3,250 million, compared to VT4,050 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 in July.

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

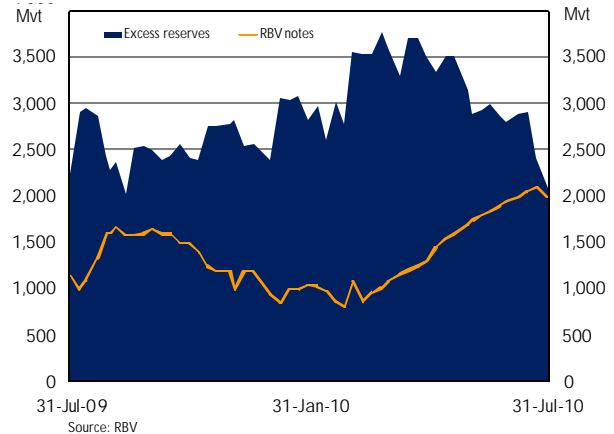


Table 2: Amount Allotted (Millions of Vatu)

Term	Amount Allotted
7 days	400
14 days	350
28 days	350
63 days	350
91 days	200

Total maturity for the month was VT1,600 million, leaving outstanding notes at VT2 billion as of end July, compared to VT1,950 at the end of the previous month.

Chart 8: Short-term Interest rates

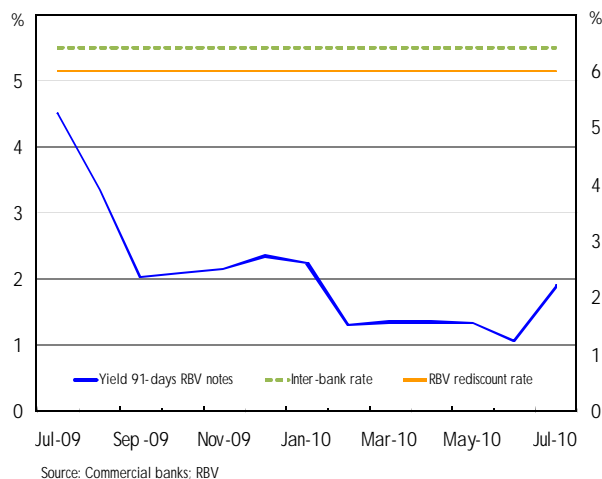


Table 3: Yields on RBV Notes (%)

Term	End July 2010	End June 2010
7 days	0.90	0.90
14 days	0.90	0.90
28 days	0.90	0.90
63 days	1.50	1.05
91 days	1.90	1.07

The inter-bank rate remained at 5.5 percent.

Interest Rates

As shown in Table 4, commercial banks' deposit and lending interest rates have been maintained as in the previous month's ranges, with the exception on the maximum interest rates on the 2-6 months categories of fixed deposits, which declined by 25 basis points.

Table 4: Interest Rates (%)

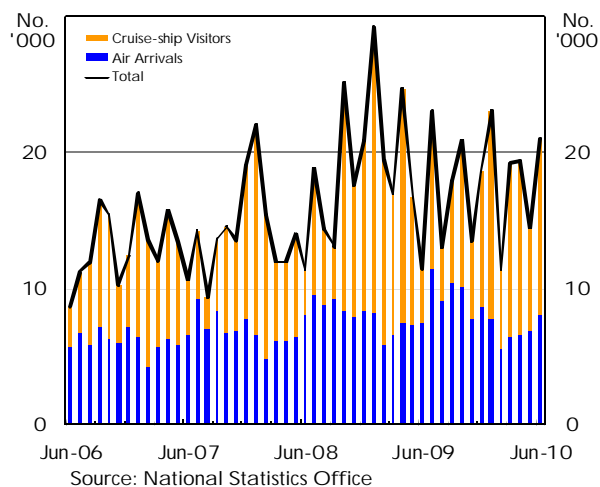
Deposit Interest Rates				
	Savings	1-Mnth	2-6 Mnths	Above 6 Mnths
Apr-10	0.5-5.00	1.25-8.00	1.60-8.45	2.50-9.80
May-10	0.5-5.00	1.50-7.50	1.60-7.25	2.50-9.80
Jun-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Apr-10	9.50-23.0	5.5-26.5	8.9-13.0	9.99-19.5
May-10	8.95-23.0	5.5-26.5	8.9-13.0	9.99-19.5
Jun-10	8.95-23.0	5.5-26.5	8.9-13.0	9.99-19.5

Overall, interest rates during the June quarter of 2010 have eased as represented in the narrowing of the interest rate spread from 8.2 percent during the March quarter to 7.6 percent during the June quarter.

Tourism Update - June 2010

In June 2010, total non-resident visitor arrival (air plus cruise-ship visitors) to Vanuatu, rose 46 percent in the month to 21,019 visitors, an increase of 84 percent over June 2009. Day-visitors (mainly cruise-ship) rose 72 percent to 12,984 visitors attributed to seven P&O cruise visits to Port Vila in the month with various en-route port calls to outer-island port of Mystery Island (4), originating from Auckland, Brisbane and Sydney ports. Compared to June 2009 (two P&O cruise visits with 3,954 visitors), day-visitors rose strongly by 228 percent over the year to June 2010.

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



Air arrivals rose 17 percent in the month to 8,035 visitors, driven mainly by an improvement in Australia and New Zealand markets. Over the year to June 2010, air arrivals rose 7 percent, with the majority of the increase arriving for holidays, meetings and conferences while arrivals visiting friends and relatives recorded a decline. An increase was shown for the New Zealand, New Caledonia and Other Pacific Island countries. The average length of stay for visitors rose from 10.8 days to 12.2 days in the month. The cumulative sum for the period January-June 2010 depicted a 4 percent drop in air visitor arrivals and 11 percent drop in cruise-ship arrivals compared to the same period in 2009.

Consumer Price Index – June Quarter

The Consumer Price Index (CPI) rose 2.7 percent over the same quarter of 2009 (annual inflation), showing increases for Port Vila and Luganville of 2.8 percent and 2.2 percent respectively, driven mainly by increases in the food and alcoholic drinks & tobacco groups. Over the previous quarter (quarterly inflation), the CPI rose 0.7 percent, with prices in Port Vila increasing 0.7 percent and Luganville prices increasing 0.6 percent, mainly driven by the food, alcoholic drinks

and tobacco and housing and utilities categories. Price decreases were shown for the recreation, household supplies and miscellaneous expenditure groups. Underlying inflation³ decreased 1.2 percent over the previous quarter and 1.8 percent over the June quarter of 2009.

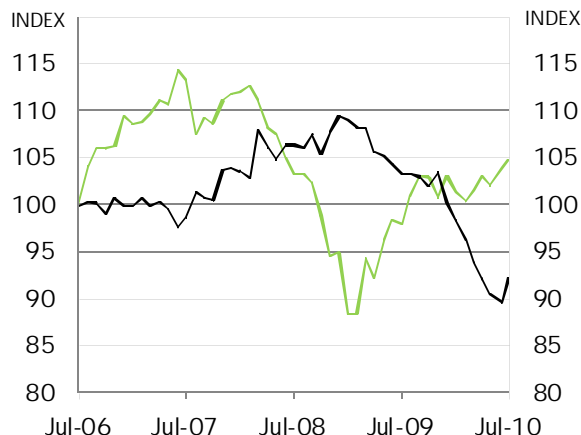
Exchange Rate Developments – July 2010

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

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Jul-10	99.50	88.66	71.82	129.29
1 month ago	102.96	87.38	71.25	125.5
% change	-3.4	1.5	0.8	3.0
3 months ago	97.62	90.53	70.64	129.11
% change	1.9	-2.1	1.7	0.1
12 months ago	102.91	84.94	67.09	144.84
% change	-3.3	4.4	7.1	-10.7

Note: (-) appreciation of vatu

Exchange Rate Index of the Vatu/NZD & Vatu/EUR- Base July 2006 =100



During the month, the vatu depreciated against the Australian dollar (AUD), New Zealand dollar (NZD) and euro (EUR), but appreciated against the US dollar (USD).

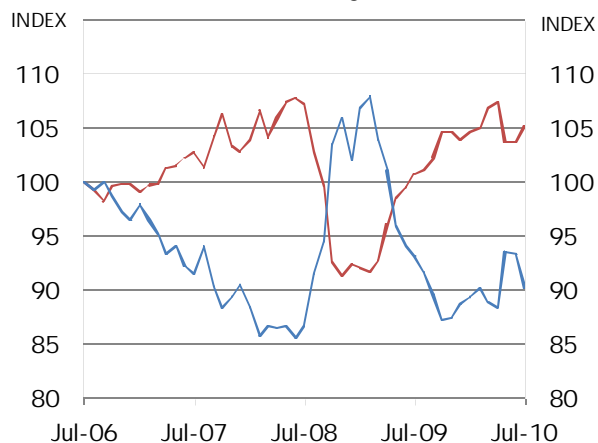
The performance of the USD was driven by continued poor macroeconomic indicators, in particularly the persistently high unemployment rate and falling demand for durable manufactured goods. The poor performance further cemented expectations that the Federal Reserve will maintain exceptionally loose monetary policy.

The AUD was supported by the interest rate differential as a result of the Reserve Bank of Australia's (RBA) tightening earlier in 2010. The RBA observed that despite a general moderation in commodity prices, major Australian commodities prices remained at elevated levels, providing some insulation to the AUD. However, the performance of the currency was toned down by softening inflation figures for the second quarter, indicating a weak domestic demand.

The Reserve Bank of New Zealand raised its policy interest rate from 2.50 percent to 3.00 percent in its 29th July decision, following on from a previous increase on 10th June. However, moderating export commodity prices, tepid domestic demand and fragile business confidence decreased the probability of further imminent monetary tightening, contributing to the fact that the currency experienced only a modest appreciation. The outlook for New Zealand growth weakened slightly as a result of a cooling in the Chinese export market.

The EUR was buoyed by strong results from Germany, whilst the currency union as a whole continued to be characterised by uneven performance. The key German Ifo business climate index improved substantially during the month, further reinforcing expectations about the strength of the German recovery.

Exchange Rate Index of the Vatu/USD & Vatu/AUD- Base July 2006=100



³ A measure derived by the Vanuatu National Statistics Office from the CPI excluding items which typically have unstable or volatile prices due to seasonal variation or policy decisions.

MONETARY AND FINANCIAL STATISTICS
TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

(Millions of Vatu)

End of Period	Jun-09	Mar-10	May-10	Jun-10	%Change		
					1 Month	3 months	12months
Foreign Assets	12664.2	14986.2	15033.4	15507.9	3.2	3.5	22.5
Foreign Exchange 1/	12002.5	14362.2	14408.0	14882.5	3.3	3.6	24.0
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	227.5	241.8	243.1	243.1	0.0	0.6	6.8
Claims on Government	620.2	621.0	620.7	620.7	0.0	0.0	0.1
Advances to statutory Bodies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advances to commercial Banks	0.0	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	1924.1	1961.1	2003.4	1914.6	-4.4	-2.4	-0.5
Total Assets	15208.5	17568.3	17657.5	18043.2	2.2	2.7	18.6
Reserve Money	8726.8	9906.8	9689.9	9487.2	-2.1	-4.2	8.7
Currency outside Banks 3/	3819.3	3545.2	3878.2	3924.1	1.2	10.7	2.7
Commercial Banks Cash	1023.5	994.5	875.3	969.4	10.7	-2.5	-5.3
Commercial Banks Deposit with RBV	3884.0	5367.2	4936.3	4593.7	-6.9	-14.4	18.3
Foreign Liabilities 2/	625.3	2706.2	2706.3	2813.2	4.0	4.0	349.9
Government Deposits, of which	3579.0	3156.9	2964.0	3169.7	6.9	0.4	-11.4
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	1141.0	1082.5	1696.5	1946.4	14.7	79.8	70.6
Other Liabilities	1136.4	715.9	600.8	626.7	4.3	-12.5	-44.9
TOTAL Liabilities	15208.5	17568.3	17657.5	18043.2	2.2	2.7	18.6

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

(Millions of Vatu)

END OF PERIOD	Jun-09	Mar-10	May-10	Jun-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	1023.5	994.5	875.3	969.4	10.7	-2.5	-5.3
Deposits with RBV	3884.0	5367.2	4936.3	4593.7	-6.9	-14.4	18.3
RBV Notes	1141.0	1082.5	1696.5	1946.4	14.7	79.8	70.6
Foreign Assets, of which	29254.2	28100.2	26996.2	25751.9	-4.6	-8.4	-12.0
Claims on non-residents' banks	26879.6	25353.3	24129.3	22867.3	-5.2	-9.8	-14.9
Claims on Private sector	36892.3	40257.3	40830.6	41571.2	1.8	3.3	12.7
Claims on Government	434.5	587.0	686.7	686.7	0.0	17.0	58.0
Other claims 1/	128.1	114.8	112.4	114.4	1.8	-0.3	-10.7
Other Assets	3216.1	3111.5	3766.5	3742.2	-0.6	20.3	16.4
TOTAL ASSETS	75973.8	79614.9	79900.6	79375.9	-0.7	-0.3	4.5
Demand Deposits, of which	15989.3	17307.0	17029.3	16794.2	-1.4	-3.0	5.0
Foreign currency	8506.2	9297.3	8703.0	8249.7	-5.2	-11.3	-3.0
Savings deposits, of which	4174.2	4551.1	4573.5	5251.4	14.8	15.4	25.8
Foreign currency	221.3	406.7	395.3	996.2	152.0	145.0	350.1
Time deposits, of which	33549.4	32162.0	31708.5	29774.5	-6.1	-7.4	-11.3
Foreign Currency	17300.1	14097.8	13704.3	11978.5	-12.6	-15.0	-30.8
Foreign Liabilities, of which	7096.3	10438.2	10512.3	11071.4	5.3	6.1	56.0
Non residents Banks	1499.8	3425.1	3464.4	3371.8	-2.7	-1.6	124.8
Government Deposits	801.5	1332.1	1185.3	1349.0	13.8	1.3	68.3
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	14363.0	13824.5	14891.9	15135.3	1.6	9.5	5.4
TOTAL LIABILITIES	75973.8	79614.9	79900.6	79375.9	-0.7	-0.3	4.5

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

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

(Millions of Vatu)

END OF PERIOD	Jun-09	Mar-10	May-10	Jun-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	34,595.7	29,942.0	28,811.1	27,375.1	-5.0	-8.6	-20.9
Monetary Authorities (Net)	12,196.9	12,280.0	12,327.1	12,694.7	3.0	3.4	4.1
Commercial Banks (Net)	22,398.8	17,662.0	16,484.0	14,680.4	-10.9	-16.9	-34.5
2. Net Domestic Assets	23,053.8	27,623.3	28,378.4	28,368.9	0.0	2.7	23.1
(a) Domestic Credit	34,091.5	37,835.1	38,869.5	39,241.2	1.0	3.7	15.1
(i) Net claims on government	(3,378.3)	(3,280.9)	(2,841.9)	(3,211.3)	-13.0	2.1	4.9
Monetary Authorities	(3,028.1)	(2,535.9)	(2,343.3)	(2,548.9)	-8.8	-0.5	15.8
Commercial Banks	(350.2)	(745.0)	(498.6)	(662.3)	-32.8	11.1	-89.1
(ii) Claims on Non financial Public enterprises (NFPE)	111.2	103.1	99.8	99.1	-0.8	-3.9	-10.9
(iii) Claims on Private Sector (1)	37,345.3	41,001.3	41,598.9	42,338.0	1.8	3.3	13.4
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	13.3	11.6	12.6	15.3	21.7	31.8	15.6
(b) Other items (net)	(11,037.7)	(10,211.8)	(10,491.1)	(10,872.3)	3.6	6.5	-1.5
3. Total Assets= Total Money Supply (M2)	57,649.4	57,565.3	57,189.5	55,744.3	-2.5	-3.2	-3.3
(a) Money (M1)	19,592.6	20,852.2	20,907.5	20,718.3	-0.9	-0.6	5.7
(i) Currency outside Banks	3,563.3	3,545.2	3,878.2	3,924.1	1.2	10.7	10.1
(ii) Demand deposits	16,029.3	17,307.0	17,029.3	16,794.2	-1.4	-3.0	4.8
(b) Quasi-money	38,056.8	36,713.1	36,281.9	35,026.0	-3.5	-4.6	-8.0
(i) Saving Deposits	4,210.5	4,551.1	4,573.5	5,251.4	14.8	15.4	24.7
(ii) Time Deposits	33,846.3	32,162.0	31,708.5	29,774.5	-6.1	-7.4	-12.0

1) Include RBV staff loans and credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

(Millions of Vatu)

END OF PERIOD	Jun-09	Mar-10	May-10	Jun-10
1. Net Foreign Assets	1,504.1	(3,760.9)	387.7	(1,435.9)
Monetary authorities	582.8	1.8	206.7	367.6
Commercial Banks	921.3	(3,762.7)	180.9	(1,803.5)
2. Domestic Money creation	(152.4)	1,577.4	(76.8)	(9.5)
(a) Domestic credit	(244.5)	1,467.8	186.6	371.7
Net Claims on Government	(403.7)	340.1	51.4	(369.4)
Monetary Authorities (net)	(365.1)	872.5	(137.4)	(205.6)
Commercial Banks (net)	(38.6)	(532.5)	188.8	(163.8)
Claims on non financial public enterprises	0.2	(0.7)	(1.5)	(0.8)
Claims on Private sector	159.6	1,127.9	134.7	739.1
(b) Other Domestic factor	92.1	109.6	(263.4)	(381.2)
3. Money Supply creation (M4)	1,351.7	(1,186.5)	310.9	(1,445.1)
Money (M1)	291.1	(1,186.5)	634.5	(189.2)
Quasi-money	1,060.5	0.0	(323.6)	(1,255.9)

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