



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 149

June 2010

MONETARY SURVEY

Total money supply (M2) increased by 0.5 percent in May following a decline of 1.2 percent in April 2010. With this pickup in growth, total money supply reached VT57,189.5 million at the end of May. The growth was attributed to increases in both net foreign assets and domestic credit. Growth in M2 over the year to May 2010 was 1.6 percent, from 0.4 percent recorded for the year to April 2010.

Chart 1 shows that the annual growth rate of broad money supply was driven by the improvement in NFA while growth in domestic credit, though showing a recent trend deceleration, also partly contributed to the growth.

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



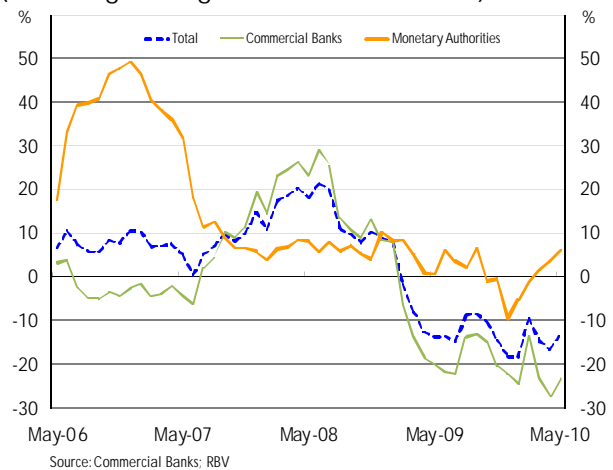
Determinants of Money Supply

Total Net foreign Assets (NFA) picked up by 1.4 percent during May, following persistent declines recorded over the previous months. The increase in May stemmed from improvements in the NFA positions of both the monetary authorities and commercial banks. Likewise, growth in NFA over the year to May 2010,

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though improved from the previous month's position, remained low at negative 12.9 percent. .

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

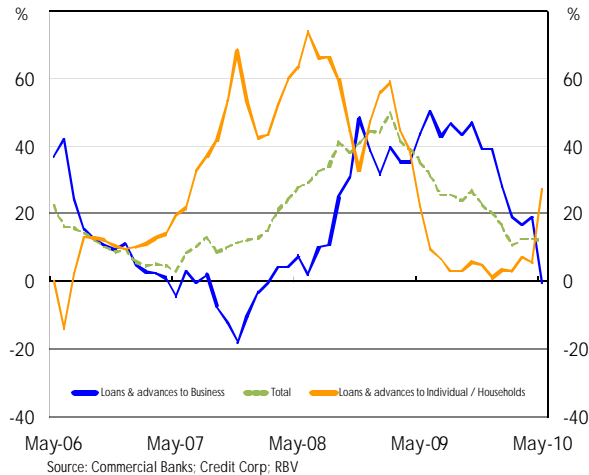


The improvement in the NFA position of the monetary authority was due to an increase of 1.5 percent in its holdings of foreign exchange reserves, implying that the Bank has recorded net inflows of foreign exchange during May. The bulk of these inflows were via cash grants on behalf of the government and interest received on foreign reserves which outweighed outflows of foreign exchange to commercial banks and loan repayments on behalf of the Government. With these inflows import cover is estimated to remain comfortable at 5.8 months.

Commercial banks recorded an increase of 0.2 percent in their foreign assets, contributing to the overall improvement in their NFA position. Likewise, their foreign liabilities have declined by 1.3 percent, which also partly contributed to the overall increase. With this monthly growth, the annual growth rate of commercial banks NFA over the year to May 2010 increased, but remained low at negative 26.4 percent.

Total domestic credit increased by 0.5 percent during the month under review, slower than the 2.2 percent recorded in April 2010. Likewise, the annual growth rate over the year to May 2010 decelerated to 13.2 percent from 14.1 percent over the year to the previous month. The monthly growth in domestic credit was attributed to increases in loans to the private sector and municipalities and an increase in net claims on the government. Loans extended to non-financial public enterprises recorded a decline during the month.

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



Private sector credit¹ grew by 0.3 percent in May 2010, decelerating from the 1.1 percent recorded in April 2010. This slowdown in growth resulted in the annual growth rate for the year to May 2010 decelerating further to 11.9 percent from the 12.6 percent recorded over the year to April 2010.

Only two economic sectors, namely personal loans and miscellaneous, contributed positively to the monthly growth, while the rest of the sectors made negative contributions to growth. Regarding the annual growth, almost all economic sectors made positive contributions with the exception of manufacturing and housing and land loans..

With regards to the composition of loans, the monthly increase in private sector loans was caused mainly by an increase of 11.1 percent in personal loans which offsets the decline of 8.3 percent in business loans. The annual growth follows the same pattern, with personal loans accelerating to 27.5 percent, while business loans decelerating to just below zero percent. This trend implied a shift in consumer's preferences to personal

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

lending rather than business related loans over month and year, respectively (Chart 3).

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

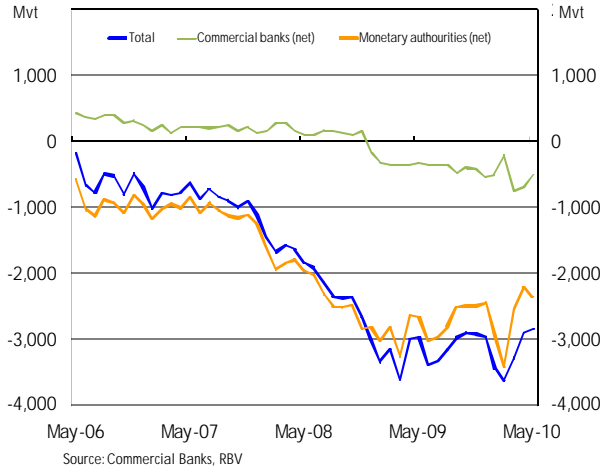
Table: 1 Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)			% Change	
	May-09	Apr-10	May-10	1 Month	12 Months
Agriculture	609.6	796.9	777.3	-2.5	27.5
Fisheries	95.6	22.7	50.8	123.7	-46.8
Mining & Quarrying	111.8	89.2	90.4	1.4	0.0
Manufacturing	2239.3	1745.1	1609.4	-7.8	-28.1
Distribution	2983.7	3442.6	3163.0	-8.1	6.0
Tourism	2562.6	2660.6	2662.8	0.1	3.9
Entertainment & Catering	124.6	146.7	144.9	-1.2	16.3
Transport	1649.7	1547.6	1562.5	1.0	-5.3
Public Utilities	36.3	35.9	35.8	-0.2	-1.4
Construction	4189.9	5140.8	4855.9	-5.5	15.9
a) Central Government	6.4	29.5	0.0	0.0	0.0
b) Public Corporation	19.3	6.3	36.4	476.2	88.3
Financial Institutions	200.4	194.4	180.4	-7.2	-10.0
Professional & Other Services	1536.6	2061.1	2029.7	-1.5	32.1
Housing & Land Purchases	13153.4	13112.9	12945.4	-1.3	-1.6
Other Personal	4357.5	5923.1	6665.1	12.5	53.0
Miscellaneous	2963.3	3861.3	4133.0	7.0	39.5
TOTAL	36,840.1	40,816.8	40,943.0	0.3	11.1
Of which : Vatu	33480.0	34555.5	34555.5	0.0	3.2

Loans extended to municipalities increased by 17.9 percent during the month but were down by 9.5 percent over the year. Loans to non-financial public enterprises fell by 1.4 percent and 10.1 percent over the month and year, respectively.

The Government's net credit position vis-à-vis the banking system deteriorated in May. This is reflected in an increase of 1.8 percent in the governments' total net borrowing from the banking system. Its deteriorating position during the month, stemmed from an increase of 27.5 percent in its net borrowing from commercial banks, which outweighed the decline of 6.2 percent in net borrowing from the Reserve Bank. The decline in net borrowing from the Reserve Bank reflected an accumulation of Government deposits with the Bank during the month, while Government deposits with commercial banks have declined. The Government's net credit position vis-à-vis the banking system also deteriorated over the year to May, reflecting its deteriorating position with the Reserve Bank, while its net credit position with commercial banks remained favorable (Chart 4).

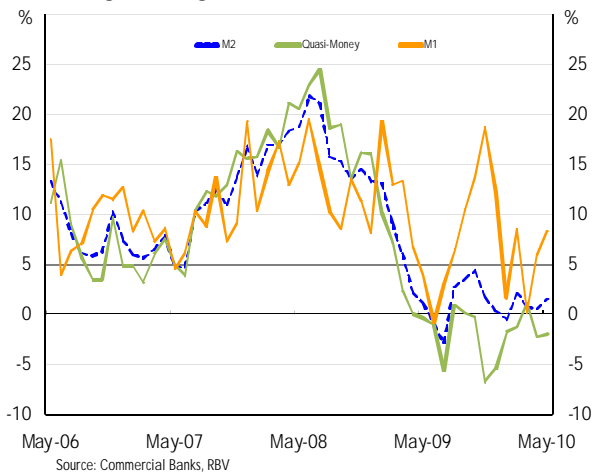
Chart 4: Net Lending Position of Government
(Billions of Vatu; Monthly Data)



Measures of Money Supply

The increase in M2 in May was mirrored in a 3.1 percent growth in narrow money (M1), which offset a decline of 0.9 percent in quasi-money. Over the year to May M1 rose by 8.3 percent, while growth in quasi-money remained low at negative 1.9 percent (Chart 5),

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



The expansion in narrow money during the month was attributed to increases in currency outside banks and demand deposits by 3.8 percent and 3.0 percent, respectively.

The increase in currency outside banks mainly reflected the growth in private sector credit, though was also partly due to government spending associated with the increase in net Government borrowing from the banking system.

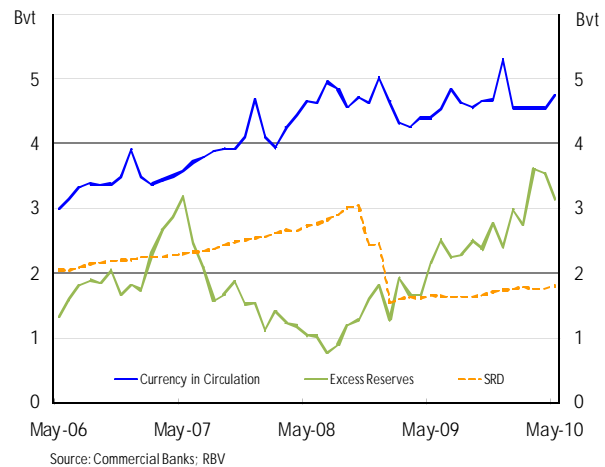
Demand deposits denominated in both local and foreign currency increased by 4.4 percent and 1.4 percent, respectively, with demand deposits overall thus increasing. The increase in demand deposits suggests

that residents are converting their interest bearing deposits to demand deposits to cater for immediate transactions over the month. As a result, residents' investment in interest bearing deposits has declined by 0.9 percent. The decline was reflected in both its components, with time and savings deposits denominated in both the local and foreign currency declining by 0.3 percent and 1.7 percent, respectively.

Reserve Money

Reserve money² declined by 1.4 percent during the month, but remained 11.3 percent higher over the year to May 2010. The decline during the month was due mainly to an 11.2 percent decline in excess reserves which offset the increases in SRD and currency in circulation. The decline in excess reserves was reflected in (i) the offsetting movements of SRD and currency in circulation; (ii) the Bank being aggressive in its open market operations as reflected in the increase in outstanding RBV notes; and (iii) the increase in private sector credit.

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



Open Market Operations (OMO) – June 2010

The Bank conducted five OMOs during June 2010 where VT2,150 million worth of RBV notes were issued compared to VT1,500 million in May 2010.

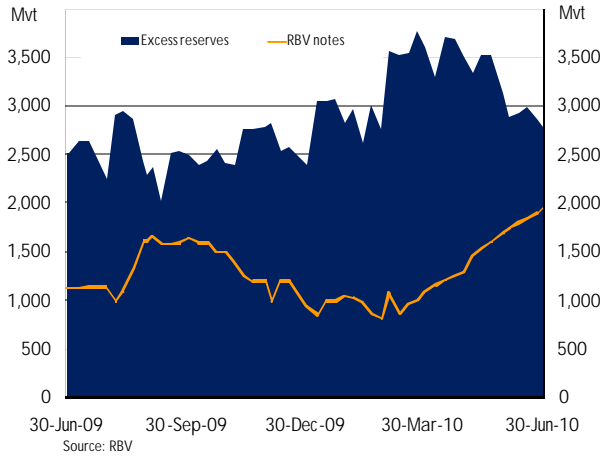
Total subscription received for these issues was VT4,050 million compared to VT2,315 million during the previous month. This high level of subscription compared to the level of issue reflects the excessive level of liquidity in the system. Table 2 shows the allotments made during the month.

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

Table 2: Amount Allotted (Millions of Vatu)

Term	Amount Allotted
7 days	500
14 days	500
28 days	500
63 days	400
91 days	250

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



Total maturity for the month was VT1,900 million, leaving outstanding notes at VT1,950 million as of end June compared to VT1,700 at the end of the previous month.

Chart 8: Short-term Interest rates

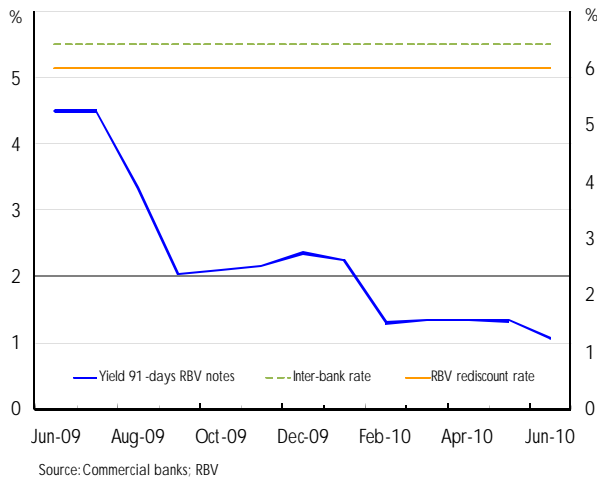


Table3: Yields on RBV Notes (%)

Term	End June 2010	End May 2010
7 days	0.90	0.90
14 days	0.90	0.94
28 days	0.90	0.90
63 days	1.05	1.10
91 days	1.07	1.34

The inter-bank rate remained at 5.5 percent.

Interest Rates

As shown in Table 4, interest rates on certain deposits have moved during the month. The lower interest rate on the one-month maturity increased by 0.25 basis points, while the upper interest rates on maturities of two to six months were reduced by 1.2 basis points. With regards to the lending rates, the lower interest rate for commercial loans was down by 0.55 basis points, while the minimum interest rates on personal loans increased by 0.1 basis points.

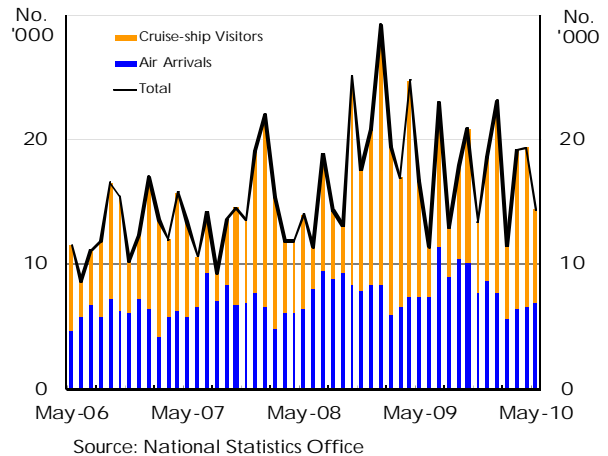
Table 4: Interest Rates (%)

Deposit Interest Rates				
	Savings	1-Mnth	2-6 Mnths	Above 6 Mnths
Mar-10	0.5-5.00	1.25-8.00	1.60-8.45	2.50-9.80
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
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Mar-10	9.50-23.0	5.5-26.5	8.9-13.0	9.99-19.5
Apr-10	9.50-23.0	5.5-26.5	8.9-13.0	9.99-19.5
May-10	8.95-23.0	5.6-26.5	8.9-13.0	9.99-19.5

Tourism Update - May 2010

Tourism statistics compiled by the National Statistics Office for May 2010 show total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu declined by 26 percent in the month to 14,424 visitors, mainly contributed by a strong decline in cruise-ship visitors while air visitor arrival rose slightly in the month. Total visitor arrivals declined 14 percent over the year.

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



In May, day-visitors (cruise-ship) numbers declined 41 percent to 7,557, attributed to four P&O cruise visits to Port Vila in the month with various en-route port calls to outer-island ports of: Mystery Island (3), Wala Island

(1), and Champagne Bay (1). This compares to eight P&O Cruise visits to Port Vila in the previous month. All four calls were made by the P&O cruise fleet: Pacific Sun originating from Auckland, Pacific Dawn from Brisbane, and Pacific Jewel and Dawn Princess from Sydney. Compared to May 2009 (5 P&O cruise visits with 9,362 visitors), day-visitors fell 19 percent over the year.

Air arrival visitors, who may spend more than a day in Vanuatu and contribute to spending in hotels/restaurants sectors, etc, rose 4 percent in the month to 6,867 visitors. Visitors arriving for holidays, visitors visiting friends and relatives, and visitors arriving for meetings/conferences rose in the month whilst stopovers fell. The increase in the month was mainly contributed by growth led by the following major markets: New Caledonia (39%), New Zealand (12%), Europe (20%) and Other Countries (14%), offsetting the negative growth shown for Australia (-6%), Japan (-29%), Other Pacific Countries (-0.9%), and N. America (-0.5%).

Over the year to May 2010, air arrivals declined 7 percent, mainly due to falls in holiday visitors, visitors visiting friends and visitors arriving for meetings/conferences. In contrast, stopovers rose over the year. The decline in visitor arrivals over the year was driven by the following major markets: Australia (-15%), New Zealand (-5%), N. America (-12%), Other Pacific Countries (-9%) and Japan (48%). This offset the positive growth from New Caledonia (18%), Other Countries (58%) and Europe (3%). The highest ranked visitor by type, holiday visitors (accounting for 80 percent of total air visitor arrivals in the month) rose 1 percent in the month and declined 6 percent over the year. Visitors arriving for meetings/conferences rose 16 percent in the month and declined 12 percent over the year. The average length of stay for Visitors rose slightly to 10.8 days, compared to 9.4 days in the previous month.

Air arrivals to Port Vila (Bauerfield Airport), the major port of entry of air visitors, rose 4 percent in the month and declined 6 percent over the year. Visitor arrivals to Vanuatu's second town, Luganville (Pekoa Airport) declined 13 percent in the month and by 22 percent over the year.

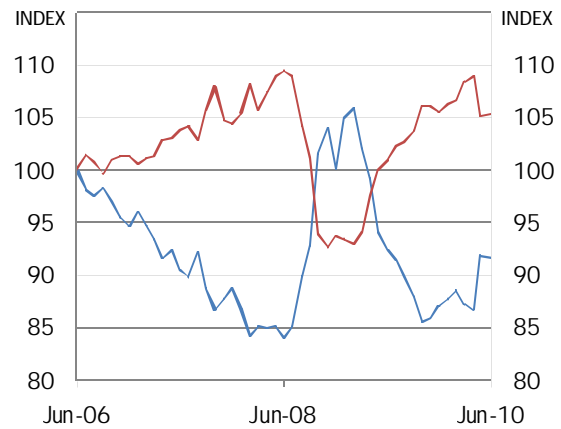
Exchange Rate Developments – June 2010

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

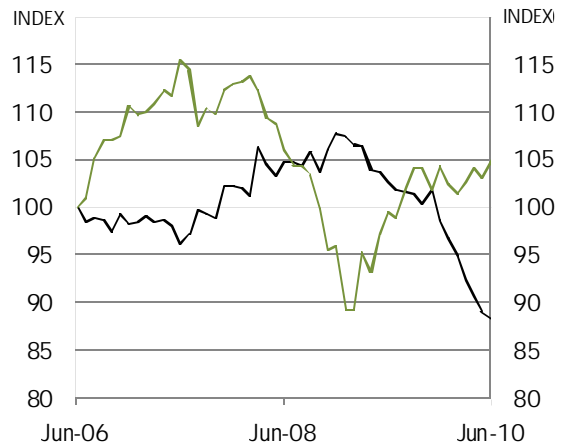
	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Jun-10	102.96	87.38	81.25	125.50
1 month ago	103.35	87.33	69.95	126.79
%?	-0.4	0.1	16.2	-1.0
3 months ago	98.05	90.06	69.60	131.55
%?	5.0	-3.0	16.7	-4.6
12 months ago	103.88	83.85	67.50	146.25
%?	-0.9	4.2	20.4	-14.2

Note : (-) appreciation of vatu

Exchange Rate Index of the Vatu/USD & Vatu/AUD- Base June 2006



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



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

Efforts by European governments and the European Central Bank (ECB) to improve fiscal sustainability contributed to a slowing in the depreciation of the EUR. The depreciation of the currency, which had

previously been a major driver of world exchange rate developments, slowed significantly as demand for government bonds began to recover and requests for ECB loans were lower than expected. However, significant vulnerability to the fiscal outlook remains, especially in a low-growth environment, and further depreciation remains a possible destabilising factor.

The depreciation of the USD was driven by data showing persistent high unemployment (although the rate did decline from 9.7 percent to 9.5 percent) and a tentative increase in investors' risk appetite and therefore reduction in demand for USD assets. Nevertheless, the fact that joblessness appears to be on a downward trend combined with improving retail sales figures will likely support the currency going forward.

Improving confidence in the macroeconomic outlook for Australia contributed to the appreciation of the AUD. Despite signs of cooling growth from major Asian trading partners, the prices for key Australian exports remained high and the labour market showed signs of improvement. The Reserve Bank of Australia indicated that it may further tighten monetary policy as projected inflation was towards to upper end of its comfortable range.

The NZD held relatively stable against the vatu during the month, despite survey data showing declining business confidence. Easing concerns about sovereign debt in Europe supported investors' decisions to increase holdings of higher-yielding currencies, such as the NZD.

MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	May-09	Feb-10	Apr-10	May-10	%Change		
					1 Month	3 months	12months
Foreign Assets	12824.4	14986.2	14826.3	15033.4	1.4	0.3	17.2
Foreign Exchange 1/	12162.7	14362.2	14201.3	14408.0	1.5	0.3	18.5
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	227.5	241.8	242.8	243.1	0.1	0.6	6.8
Claims on Government	619.7	621.0	620.9	620.7	0.0	0.0	0.2
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	1859.8	1961.1	1893.2	2003.4	5.8	2.2	7.7
Total Assets	15303.9	17568.3	17340.5	17657.5	1.8	0.5	15.4
Reserve Money	8703.1	9906.8	9831.4	9689.9	-1.4	-2.2	11.3
Currency outside Banks 3/	3563.3	3545.2	3735.2	3878.2	3.8	9.4	8.8
Commercial Banks Cash	974.4	994.5	801.9	875.3	9.2	-12.0	-10.2
Commercial Banks Deposit with RBV	4165.4	5367.2	5294.3	4936.3	-6.8	-8.0	18.5
Foreign Liabilities 2/	627.5	2706.2	2706.0	2706.3	0.0	0.0	331.3
Government Deposits, of wick	3647.8	3156.9	2826.8	2964.0	4.9	-6.1	-18.7
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	1126.7	1082.5	1297.2	1696.5	30.8	56.7	50.6
Other Liabilities	1198.8	715.9	679.1	600.8	-11.5	-16.1	-49.9
TOTAL Liabilities	15303.9	17568.3	17340.5	17657.5	1.8	0.5	15.4

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	May-09	Feb-10	Apr-10	May-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	974.4	994.5	801.9	875.3	9.2	-12.0	-10.2
Deposits with RBV	4165.4	5367.2	5294.3	4936.3	-6.8	-8.0	18.5
RBV Notes	1126.7	1082.5	1297.2	1696.5	30.8	56.7	50.6
Foreign Assets, of wick	28990.2	28100.2	26949.2	26996.2	0.2	-3.9	-6.9
Claims on non-residents banks	27714.4	25353.3	24137.3	24129.3	0.0	-4.8	-12.9
Claims on Private sector	36715.8	40257.3	40704.8	40830.6	0.3	1.4	11.2
Claims on Government	434.5	587.0	686.7	686.7	0.0	17.0	58.0
Other claims 1/	124.5	114.8	112.0	112.4	0.4	-2.0	-9.7
Other Assets	2996.3	3111.5	3149.1	3766.5	19.6	21.1	25.7
TOTAL ASSETS	75527.8	79614.9	78995.2	79900.6	1.1	0.4	5.8
Demand Deposits, of wick	16029.3	17307.0	16537.8	17029.3	3.0	-1.6	6.2
Foreign currency	8042.4	9297.3	8562.5	8703.0	1.6	-6.4	8.2
Savings deposits, of which	4210.5	4551.1	4509.5	4573.5	1.4	0.5	8.6
Foreign currency	228.6	406.7	409.2	395.3	-3.4	-2.8	72.9
Time deposits, of which	33846.3	32162.0	32096.1	31708.5	-1.2	-1.4	-6.3
Foreign Currency	17640.1	14097.8	13944.8	13704.3	-1.7	-2.8	-22.3
Foreign Liabilities, of which	6591.4	10438.2	10646.2	10512.3	-1.3	0.7	59.5
Non residents Banks	1494.3	3425.1	3341.4	3464.4	3.7	1.1	131.8
Government Deposits	784.7	1332.1	1374.1	1185.3	-13.7	-11.0	51.0
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders'	14065.5	13824.5	13831.6	14891.9	7.7	7.7	5.9
TOTAL LIABILITIES	75527.8	79614.9	78995.2	79900.6	1.1	0.4	5.8

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	May-09	Feb-10	Apr-10	May-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	33,091.6	33,702.9	28,423.4	28,811.1	1.4	-15.7	-12.9
Monetary Authorities (Net)	11,614.1	12,278.2	12,120.4	12,327.1	1.7	-1.3	6.1
Commercial Banks (Net)	21,477.5	21,424.7	16,303.0	16,484.0	1.1	-23.9	-23.3
2. Net Domestic Assets	23,206.2	26,045.9	28,455.2	28,378.4	-0.3	9.2	22.3
(a) Domestic Credit	34,336.0	36,367.3	38,682.9	38,869.5	0.5	6.4	13.2
(i) Net claims on government	(2,974.5)	(3,621.0)	(2,893.3)	(2,841.9)	1.8	20.1	5.1
Monetary Authorities	(2,663.0)	(3,408.4)	(2,205.9)	(2,343.3)	-6.2	35.3	10.9
Commercial Banks	(311.6)	(212.6)	(687.4)	(498.6)	27.5	-223.4	-36.5
(ii) Claims on Non financial Public enterprises (NFPE)	111.0	103.8	101.3	99.8	-1.4	-2.4	-10.1
(iii) Claims on Private Sector (1)	37,185.6	39,873.4	41,464.2	41,598.9	0.3	4.0	11.9
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	13.9	11.1	10.7	12.6	17.9	-3.5	-9.5
(b) Other items (net)	(11,129.8)	(10,321.4)	(10,227.7)	(10,491.1)	2.6	-0.9	-5.7
3. Total Assets= Total Money Supply (M2)	56,297.8	58,751.8	56,878.6	57,189.5	0.5	-3.2	1.6
(a) Money (M1)	19,301.4	22,038.7	20,273.0	20,907.5	3.1	-8.0	8.3
(i) Currency outside Banks	3,524.7	3,638.3	3,735.2	3,878.2	3.8	2.7	10.0
(ii) Demand deposits	15,776.7	18,400.4	16,537.8	17,029.3	3.0	-10.1	7.9
(b) Quasi-money	36,996.3	36,713.1	36,605.5	36,281.9	-0.9	-0.3	-1.9
(i) Saving Deposits	4,133.4	4,551.1	4,509.5	4,573.5	1.4	-0.9	10.6
(ii) Time Deposits	32,863.0	32,162.0	32,096.1	31,708.5	-1.2	-0.2	-3.5

1) Include RBV staff loans and credit corp

Nb: Figures highlighted have been revised.

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

I END OF PERIOD	May-09	Feb-10	Apr-10	May-10
1. I Net Foreign Assets	(996.6)	940.1	(1,518.6)	387.7
Monetary authorities	(67.2)	372.2	(159.6)	206.7
Commercial Banks	(929.4)	567.9	(1,359.0)	180.9
2. I Domestic Money creation	635.9	373.2	831.9	(76.8)
(a) Domestic credit	435.2	369.8	847.8	186.6
Net Claims on Government	19.7	(179.4)	387.6	51.4
Monetary Authorities (net)	(34.0)	(466.2)	330.0	(137.4)
Commercial Banks (net)	53.7	286.7	57.7	188.8
Claims on non financial public enterprises	37.8	(1.7)	(1.9)	(1.5)
Claims on Private sector	376.5	554.8	463.0	134.7
(b) Other Domestic factor	200.7	3.4	(15.9)	(263.4)
3. I Money Supply creation (M4)	(360.6)	316.3	(686.7)	310.9
Money (M1)	177.0	1,039.5	(579.2)	634.5
Quasi-money	(537.6)	(723.1)	(107.5)	(323.6)