



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 151

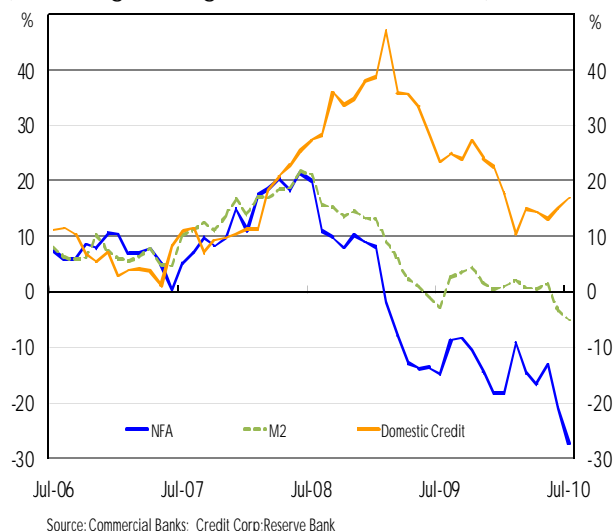
August 2010

MONETARY SURVEY

Total money supply (M2) continued to contract, falling 1.9 percent during July, following a decline of 2.5 percent recorded during June. The fall reflected a decline in net foreign assets (NFA) of the banking system which outweighed an increase in domestic credit. Owing to this monthly decline, the annual growth rate of M2 for the year ended July 2010 fell to negative 4.9 percent.

Chart 1 below shows that the annualized growth rate of M2 was largely determined by the trend in NFA.

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

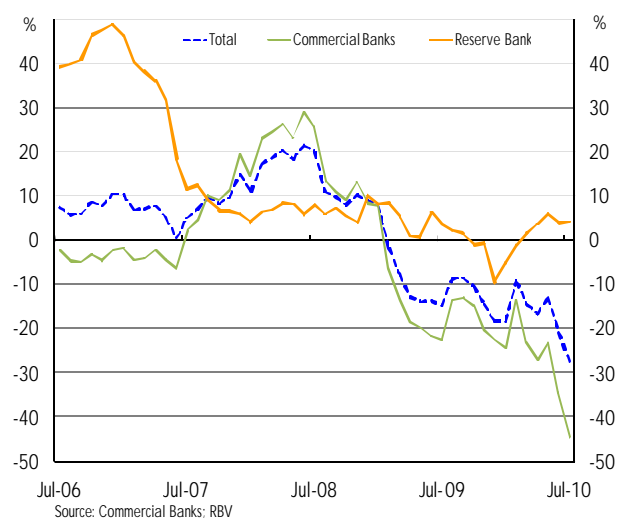


Determinants of Money Supply

Total NFA contracted by 9.3 percent and was driven by declines in the NFA holdings of both the Reserve Bank and commercial banks by 1.1 percent and 16.4 percent, respectively. The year on year growth rate of NFA remained negative at 27.9 percent.

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



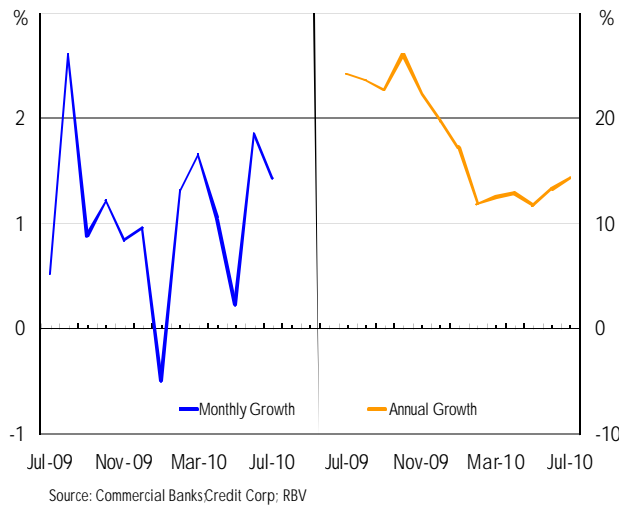
The decline in the NFA of the Reserve Bank reflected outflows of foreign exchange. The bulk of these outflows were in respect of drawdown to meet government's loan repayments and for enabling import financing by commercial banks. These outflows offset inflows via cash and project grants on behalf of the government. Despite these outflows, projected months of import cover remained unchanged at 6.1, the same level recorded in June. However, the year on year records showed an improvement of 4.3 percent in the Reserve Bank's NFA position.

Commercial banks' NFA position deteriorated further during July, as their holdings of foreign assets contracted by 4.0 percent. Furthermore, commercial banks' foreign liabilities increased by 12.4 percent during the month, implying that non-residents continued to accumulate funds with domestic banks, hence contributed partly to the overall decline in commercial banks' NFA. Over the

year to July 2010, the growth in commercial banks' NFA remained negative at 44.6 percent.

Domestic credit increased 2.3 percent this period and 16.9 percent over the year ended to July 2010. The growth during the month was mirrored by increases in private sector credit and the increase in commercial banks' net claims on the government. Loans to non-financial public enterprises and municipalities recorded declines during the month.

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



Private sector credit¹ expanded 1.5 percent this period, moderating from 1.8 percent in June. The annualized growth in private sector credit increased 14.5 percent, up from 13.4 percent over the year ended to June 2010. The growth over the month and year was attributed largely to consumer credit while loans for business purposes had slowed.

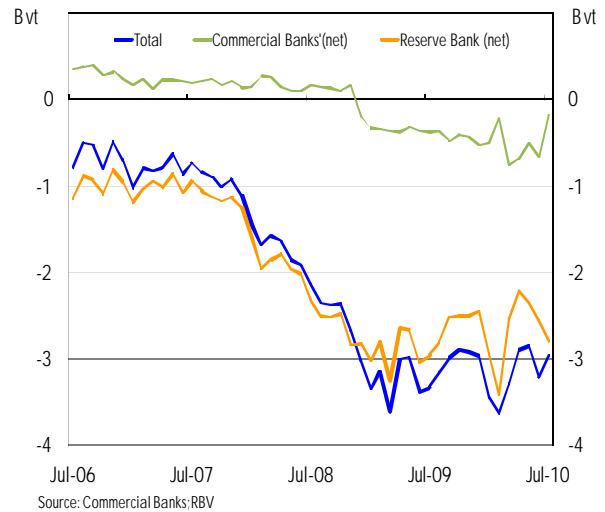
Loans extended to municipalities fell by 30.6 percent and 35.9 percent during the month and year on year respectively. At the same time loans to non-financial public enterprises increased 1.5 percent and 14.5 percent respectively.

The government's net credit position vis-à-vis the banking system deteriorated in July 2010. This is reflected in a substantial 75.2 percent increase in commercial banks' net claims on the government, which offsets the decline of 9.4 percent in the

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

Reserve Bank's net claims on the government. The increase in commercial banks' net claims on the government for the period reflected a decline in government deposits held with commercial banks. Similarly the government's net credit position deteriorated over the year to July 2010 (Chart 4).

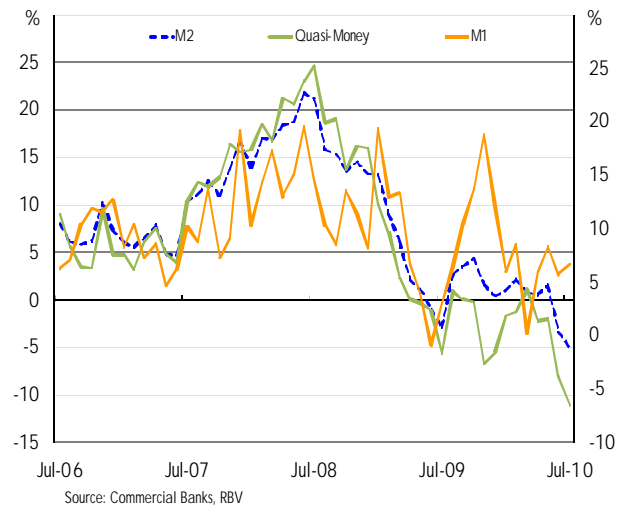
Chart 4: Net Lending Position of Government
(Billions of Vatu; Monthly Data)



Measures of Money Supply

The contraction in M2 was mirrored in quasi-money falling 4.2 percent, with narrow money trailing closely at 2.0 percent. Over the year ending July 2010, the decline in M2 was driven mainly by quasi-money, which fell 11.0 percent, outweighing the growth of 6.7 percent in M1 (Chart 5).

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



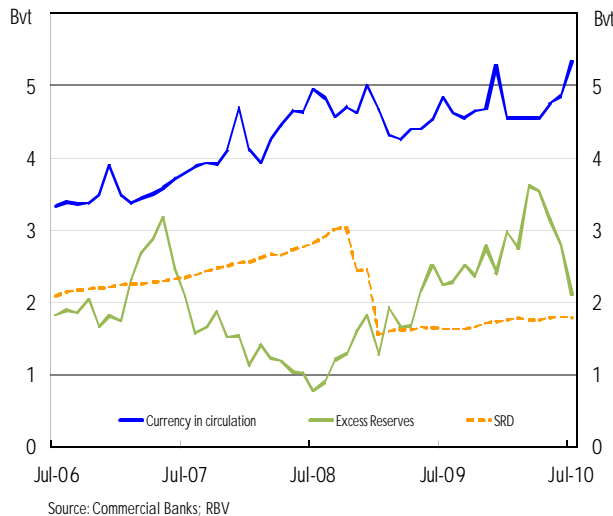
The month-on-month increase in M1 was made up of increases in both its components, with currency outside banks increasing 6.5 percent and demand deposits 0.9 percent. The increase in currency outside banks was seasonal, stimulated particularly by the independence festivity towards the end of July. The growth in demand deposits resulted from an increase of 2.4 percent in its local currency component, which outweighed the decline of 0.6 percent in demand deposits denominated in foreign currency.

The decline in the level of interest bearing deposits stemmed from a 4.2 percent fall in time and savings deposits denominated in foreign currency, which more than offset the increase of 1.5 percent in time and savings deposits denominated in local currency.

Reserve Money

Reserve money² declined by 2.7 percent in July, but was higher by 5.8 percent on a year on year basis. The decline this month was due mainly to a fall in excess reserves and SRD by 19.3 percent and 0.3 percent respectively, offsetting the seasonal increase of 10.7 percent in currency in circulation.

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



The decline in excess reserves of commercial banks can be attributed to (i) the Reserve Bank being aggressive in its open market operations as reflected in the increase of outstanding RBV notes;

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

(ii) the increase in private sector credit; (iii) net outflows of foreign exchange; and (iv) the offsetting effect of the increase in currency in circulation.

Open Market Operations (OMO) – August 2010

The Bank conducted two OMOs in August 2010, where VT600 million worth of RBV notes were issued compared to VT1,650 million issued during July.

Total subscription received for these issues was VT1,500 million compared to VT3,250 million received during the previous month. This oversubscription still reflects a fairly high level of liquidity in the system in August.

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

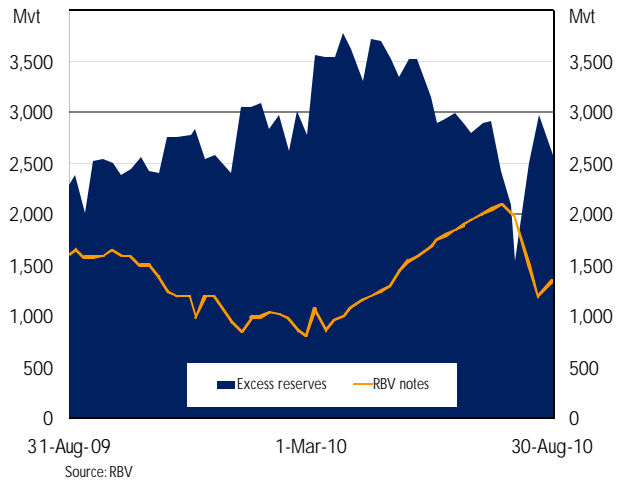


Table 2: Amount Allotted (Millions of Vatu)

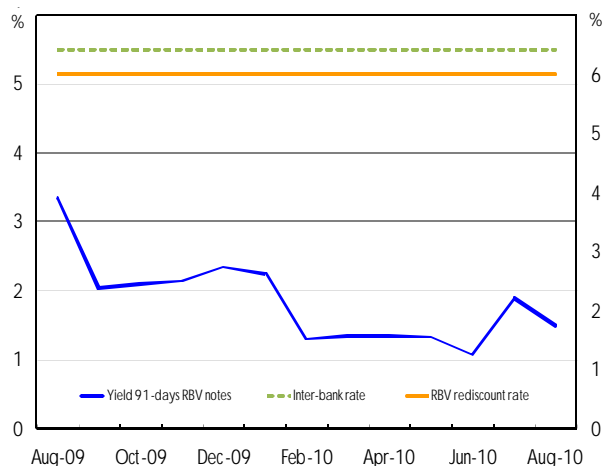
Term	Amount Allotted
7 days	150
14 days	150
28 days	150
63 days	50
91 days	50

Total notes maturing at end August was VT1,200 million, leaving notes outstanding at VT1,350 million compared to VT2 billion at the end of the previous month.

Table3: Yields on RBV Notes (Percent)

Term	End Aug 2010	End July 2010
7 days	0.89	0.90
14 days	0.89	0.90
28 days	0.89	0.90
63 days	1.50	1.50
91 days	1.50	1.90

Chart 8: Short-term Interest rates



Source: Commercial banks; RBV

The inter-bank rate remained at 5.5 percent.

Interest Rates

As shown in Table 4, commercial banks' deposit and lending interest rates remained unchanged compared to previous month's ranges.

Table 4: Interest Rates (Percent)

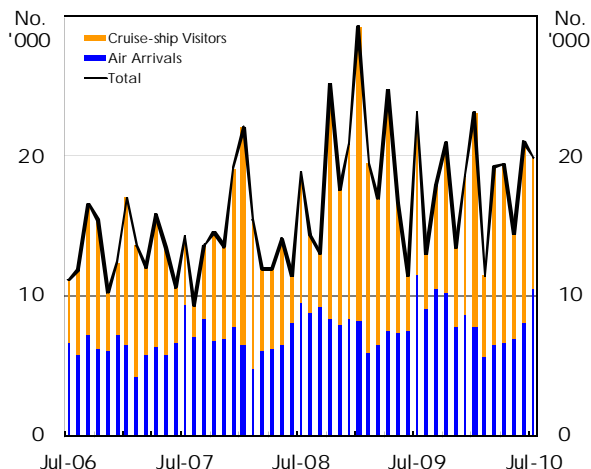
		Deposit Interest Rates			
	Savings	1 -Mnth	2-6 Mnths	Above 6 Mnths	
May-10	0.5-5.00	1.50-7.50	1.60-7.25	2.50-9.80	
Jun-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80	
Jul-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80	
		Lending Rates			
	Commercial	Personal	Housing	Agriculture	
May-10	8.95-23.0	5.5-26.5	8.9-13.0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

Tourism Update - July 2010

In July 2010, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu declined 5 percent over the month to 19,928 visitors, a 14 percent decline over July 2009. Day-visitors (mainly cruise-ship) declined 28 percent to 9,334 visitors, attributed to five P&O fleet³ cruise visits to Port Vila with three en-route port calls to Mystery Island; originating from Brisbane and Sydney ports. Compared to July 2009 (six P&O cruise visits with 11,529 visitors), day-visitors dropped 19 percent over the year to July 2010.

³ Pacific Dawn (2 calls), Pacific Jewel (2 calls) and Pacific Sun (1 call)

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



Source: National Statistics Office

Despite the fall in cruise visitors, air visitor arrivals rose strongly in the month, increasing by 32 percent to 10,594 visitors. This reflects the seasonal pattern in visitor arrivals, with warmer weather relative to the main tourist markets as well as sports and events attracting more tourists. The increase was attributed to increased visitors from Australia (24%), New Caledonia (127%), New Zealand (23%), and Europe (91%); all other markets, with the exception of Japan, showed a decline (-5%) in the month.

Over the year to July 2010, air visitor arrivals declined 8 percent, mainly due to less holiday visitors, offsetting the increase in visitors arriving for meetings/conferences, visiting friends and relatives and stop-over visits. The decline was shown for Australia (-6%), New Zealand (-15%), North America (-35%) and Other Pacific Countries (-21%). The New Caledonia and Europe markets retained growth over the year.

The average length of stay for visitors declined from 12.2 days to 11.4 days in the month. Compared to the same period of 2009, the cumulative sum for the period January-July 2010 depicted a 5 percent drop in air visitor arrivals and 12 percent drop in cruise-ship arrivals.

Exchange Rate Developments – August 2010

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

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Aug-10	100.15	82.29	70.62	126.85
1 month ago	99.50	88.66	71.82	129.29
% change	0.7	-7.2	-1.7	-1.9
3 months ago	103.5	87.33	69.95	126.79
% change	-3.1	-5.8	1.0	0.0
12 months ago	101.14	85.21	69.22	144.72
% change	-1.0	-3.4	2.0	-12.3

Note: (-) appreciation of vatu

Chart 10: Exchange Rate against USD and AUD
(Indices; August 2006=100)

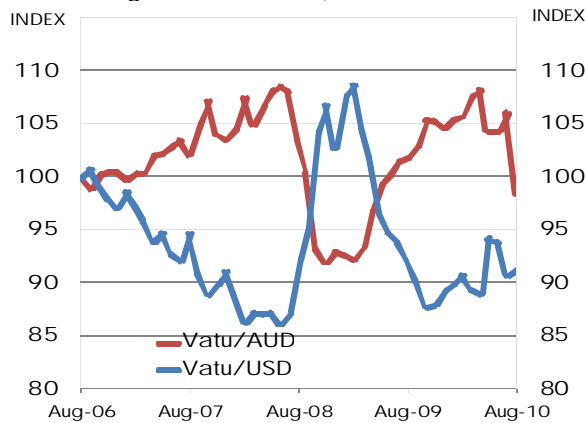
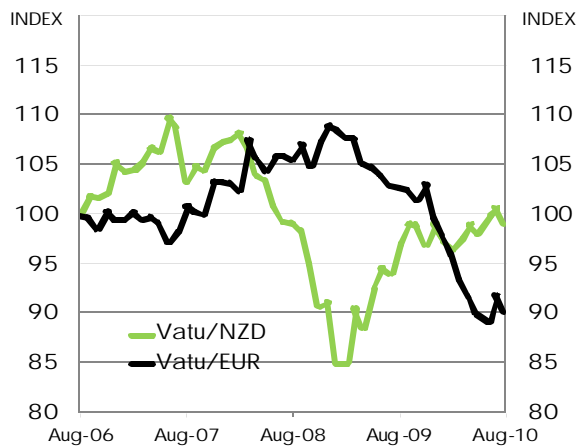


Chart 11: Exchange Rate against NZD and EUR
(Indices; August 2006=100)



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

Series of economic indicators pointed to a faltering US economic recovery with investors' first reaction

was to retreat to buying US dollar as a safe haven to other economies that may be more impacted by the US slow down. This benefitted the US dollar, contributing to its slight appreciation against the vatu during the month.

However, over the last few days the US data flow has got worse to the extent that investors are now selling the US dollar, and buying anything else anticipating that the Federal Reserve may need to declare further quantitative easing measures.

The depreciation of AUD against the vatu was driven by sales of the currency. The Reserve Bank of Australia left monetary policy unchanged this month, citing the uncertain international outlook, putting downward pressure on expectations for the time being. The failure of August 21st federal elections to produce a clear winner and therefore provide guidance about government spending plans also contributed to the weak AUD. Going forward economic recovery is expected to strengthen as labour market improves with business investment increasing while the central bank may need to raise rates to curb inflation towards the end of the year.

As with the AUD, reduced investor risk appetite following disappointing US data weighed on NZD. Domestic factors also contributed to the performance of the currency, with domestic demand remaining subdued and business confidence showing signs of easing. Following its rate increase at the end of July, the Reserve Bank of New Zealand indicated that the pace of further removal of monetary stimulus was likely to be slower than previously indicated.

Peripheral members of the euro area continued to weigh on EUR during the month. Continued high unemployment and slow recovery in a number of member states reduced the likelihood of the European Central Bank tightening monetary policy in the short to medium term. During August, data was released showing that both unemployment and inflation remained unchanged from July, further weakening expectations of growth accelerating towards the end of the year.

MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Jul-09	Apr-10	Jun-10	Jul-10	%Change		
					1 Month	3 months	12months
Foreign Assets	12664.2	14826.3	15507.9	15364.5	-0.9	3.6	21.3
Foreign Exchange 1/	12002.5	14201.3	14882.5	14739.2	-1.0	3.8	22.8
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	227.5	242.8	243.1	243.1	0.0	0.1	6.8
Claims on Government	620.2	620.9	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	1893.2	1914.6	2058.3	7.5	8.7	7.0
Total Assets	15208.5	17340.5	18043.2	18043.5	0.0	4.1	18.6
Reserve Money	8726.8	9831.4	9487.2	9230.8	-2.7	-6.1	5.8
Currency outside Banks 3/	3819.3	3735.2	3924.1	4178.8	6.5	11.9	9.4
Commercial Banks Cash	1023.5	801.9	969.4	1159.3	19.6	44.6	13.3
Commercial Banks Deposit with RBV	3884.0	5294.3	4593.7	3892.7	-15.3	-26.5	0.2
Foreign Liabilities 2/	625.3	2706.0	2813.2	2805.0	-0.3	3.7	348.6
Government Deposits, of which	3579.0	2826.8	3169.7	3409.6	7.6	20.6	-4.7
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	1141.0	1297.2	1946.4	1995.5	2.5	53.8	74.9
Other Liabilities	1136.4	679.1	626.7	602.6	-3.8	-11.3	-47.0
TOTAL Liabilities	15208.5	17340.5	18043.2	18043.5	0.0	4.1	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

END OF PERIOD	Jul-09	Apr-10	Jun-10	Jul-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	1023.5	801.9	969.4	1159.3	19.6	44.6	13.3
Deposits with RBV	3884.0	5294.3	4593.7	3892.7	-15.3	-26.5	0.2
RBV Notes	1141.0	1297.2	1946.4	1995.5	2.5	53.8	74.9
Foreign Assets, of which	29254.2	26949.2	25751.9	24720.2	-4.0	-8.3	-15.5
Claims on non-residents' banks	26879.6	24137.3	22867.3	21755.1	-4.9	-9.9	-19.1
Claims on Private sector	36892.3	40704.8	41571.2	42150.5	1.4	3.6	14.3
Claims on Government	434.5	686.7	686.7	686.7	0.0	0.0	58.0
Other claims 1/	128.1	112.0	114.4	109.2	-4.5	-2.5	-14.7
Other Assets	3216.1	3149.1	3742.2	3704.9	-1.0	17.6	15.2
TOTAL ASSETS	75973.8	78995.2	79375.9	78418.9	-1.2	-0.7	3.2
Demand Deposits, of which	15989.3	16537.8	16794.2	16951.5	0.9	2.5	6.0
Foreign currency	8506.2	8562.5	8249.7	8200.0	-0.6	-4.2	-3.6
Savings deposits, of which	4174.2	4509.5	5251.4	4899.9	-6.7	8.7	17.4
Foreign currency	221.3	409.2	996.2	466.5	-53.2	14.0	110.8
Time deposits, of which	33549.4	32096.1	29774.5	28656.6	-3.8	-10.7	-14.6
Foreign Currency	17300.1	13944.8	11978.5	10709.8	-10.6	-23.2	-38.1
Foreign Liabilities, of which	7096.3	10646.2	11071.4	12448.7	12.4	16.9	75.4
Non residents Banks	1499.8	3341.4	3371.8	3119.6	-7.5	-6.6	108.0
Government Deposits	801.5	1374.1	1349.0	851.2	-36.9	-38.0	6.2
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	14363.0	13831.6	15135.3	14611.0	-3.5	5.6	1.7
TOTAL LIABILITIES	75973.8	78995.2	79375.9	78418.9	-1.2	-0.7	3.2

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

END OF PERIOD	Jul-09	Apr-10	Jun-10	Jul-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	34,196.8	28,423.4	27,375.1	24,831.0	-9.3	-12.6	-27.4
Monetary Authorities (Net)	12,038.9	12,120.4	12,694.7	12,559.5	-1.1	3.6	4.3
Commercial Banks (Net)	22,157.9	16,303.0	14,680.4	12,271.5	-16.4	-24.7	-44.6
2. Net Domestic Assets	23,335.4	28,455.2	28,368.9	29,856.7	5.2	4.9	27.9
(a) Domestic Credit	34,336.6	38,682.9	39,241.2	40,148.8	2.3	3.8	16.9
(i) Net claims on government	(3,325.8)	(2,893.3)	(3,211.3)	(2,953.4)	8.0	-2.1	11.2
Monetary Authorities	(2,958.8)	(2,205.9)	(2,548.9)	(2,788.8)	-9.4	-26.4	5.7
Commercial Banks	(367.0)	(687.4)	(662.3)	(164.6)	75.2	76.1	55.2
(ii) Claims on Non financial Public enterprises (NFPE)	111.5	101.3	99.1	98.5	-0.5	-2.7	-11.6
(iii) Claims on Private Sector (1)	37,534.4	41,464.2	42,338.0	42,992.1	1.5	3.7	14.5
(iv) Claims on other financial institutions	0.0	0.0	0.0	1.0	0.0	0.0	0.0
(v) Claims on Municipalities	16.6	10.7	15.3	10.6	-30.6	-0.4	-35.9
(b) Other items (net)	(11,001.2)	(10,227.7)	(10,872.3)	(10,292.1)	-5.3	0.6	-6.4
3. Total Assets= Total Money Supply (M2)	57,532.2	56,878.6	55,744.3	54,686.7	-1.9	-3.9	-4.9
(a) Money (M1)	19,808.5	20,273.0	20,718.3	21,130.3	2.0	4.2	6.7
(i) Currency outside Banks	3,819.3	3,735.2	3,924.1	4,178.8	6.5	11.9	9.4
(ii) Demand deposits	15,989.3	16,537.8	16,794.2	16,951.5	0.9	2.5	6.0
(b) Quasi-money	37,723.7	36,605.5	35,026.0	33,556.5	-4.2	-8.3	-11.0
(i) Saving Deposits	4,174.2	4,509.5	5,251.4	4,899.9	-6.7	8.7	17.4
(ii) Time Deposits	33,549.4	32,096.1	29,774.5	28,656.6	-3.8	-10.7	-14.6

1) Include RBV staff loans and credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Jul-09	Apr-10	Jun-10	Jul-10
1. Net Foreign Assets	(398.9)	(1,518.6)	(1,435.9)	(2,544.2)
Monetary authorities	(158.0)	(159.6)	367.6	(135.2)
Commercial Banks	(240.9)	(1,359.0)	(1,803.5)	(2,408.9)
2. Domestic Money creation	281.7	831.9	(9.5)	1,487.9
(a) Domestic credit	245.2	847.8	371.7	907.7
Net Claims on Government	52.5	387.6	(369.4)	257.9
Monetary Authorities (net)	69.3	330.0	(205.6)	(239.9)
Commercial Banks (net)	(16.8)	57.7	(163.8)	497.8
Claims on non financial public enterprises	0.3	(1.9)	(0.8)	(0.5)
Claims on Private sector	189.1	463.0	739.1	654.0
(b) Other Domestic factor	36.5	(15.9)	(381.2)	580.2
3. Money Supply creation (M4)	(117.2)	(686.7)	(1,445.1)	(1,057.6)
Money (M1)	216.0	(579.2)	(189.2)	411.9
Quasi-money	(333.2)	(107.5)	(1,255.9)	(1,469.5)

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