



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 153

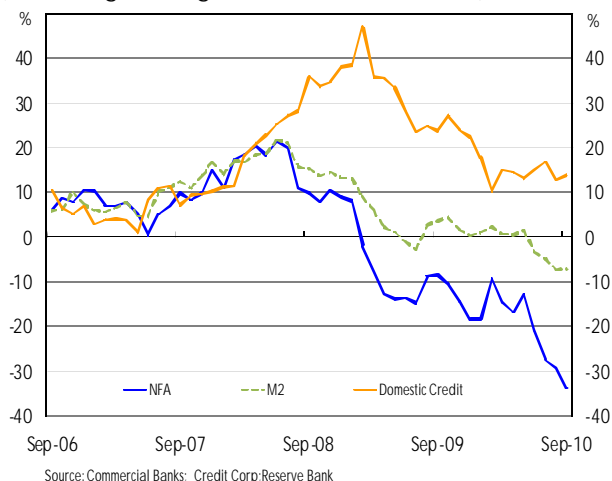
October 2010

MONETARY SURVEY

Growth in total money supply (M2) picked up in September, registering an expansion of 1.7 percent as compared to declines recorded for the previous two consecutive months. The increase during the reviewed month reflected an increase in domestic credit, while net foreign assets (NFA) continued to decline. Despite this monthly increase, the annual growth rate of M2 for the year ending September 2010 remained negative at -7.1 percent.

Chart 1 below shows that the deterioration in the annual growth rate of M2 was largely determined by the trend in NFA. Annual growth in domestic credit remained strong.

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

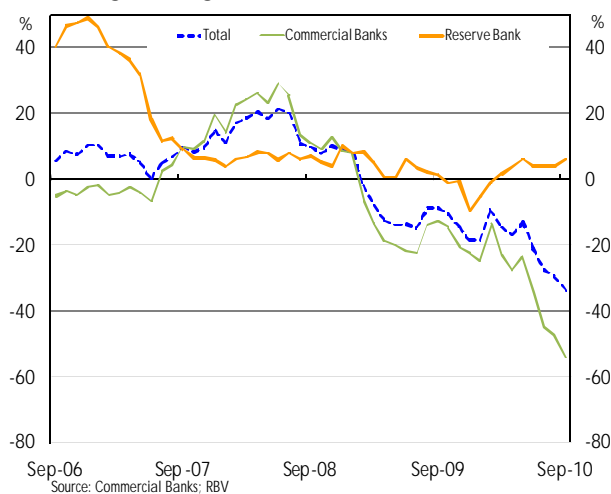


Determinants of Money Supply

Total NFA continued trending downwards, contracting by 4.5 percent in September, driven by a 10.1 percent decline in the NFA holdings of commercial banks, which offset the 0.8 percent increase in the Reserve Bank's holdings. The year-

on-year growth rate of NFA remained negative at -33.6 percent.

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



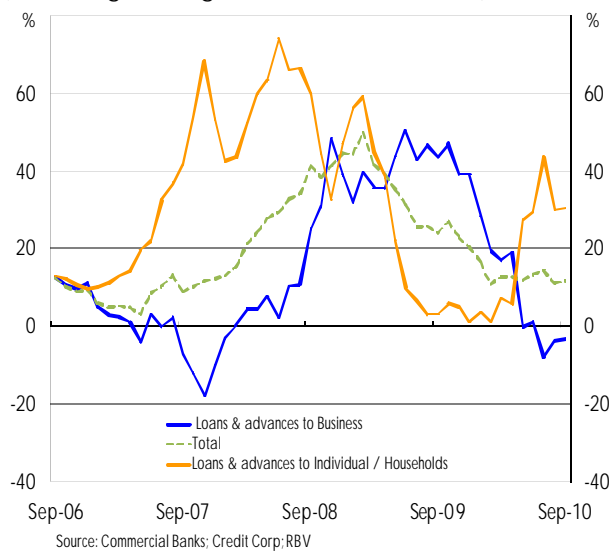
The increase in the NFA of the Reserve Bank mainly stemmed from a decline of 6.1 percent in its foreign liabilities although at the same time its foreign assets declined by 0.5 percent. The decline in its foreign assets reflected net outflows of foreign exchange during the month. The bulk of these outflows were via project grants, import financing by commercial banks, and loan repayments on behalf of the government. These outflows outweighed inflows received as cash grants on behalf of the government, administrative funds for a foreign embassy, and interest received on official reserves. The projected months of import cover remained unchanged from August at 6.1. The year-on-year records showed an improvement of 6.1 percent in the Reserve Bank's NFA position.

Commercial banks' NFA declined further during September as a result of their foreign asset holdings contracting by 6.4 percent, whilst their foreign liabilities declined by 3.0 percent. Over the year to September 2010, the growth in

commercial banks' NFA remained negative at -54.1 percent.

Domestic credit growth picked up in September, expanding by 2.5 percent following a decline of 0.3 percent in August. This monthly increase triggered the annual growth rate to increase to 14.1 percent from 12.8 percent recorded over the year to the previous month. The increase during September was attributed to increases in credit to the private sector and municipalities and an increase in banking system net claims on the government. Claims on non-financial public enterprises recorded a decline.

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



Private sector credit¹ expanded by 1.3 percent in September, following a contraction of 0.6 percent in August 2010. The annual growth rate rose marginally to 11.6 percent in September, from 11.0 percent over the year to August 2010.

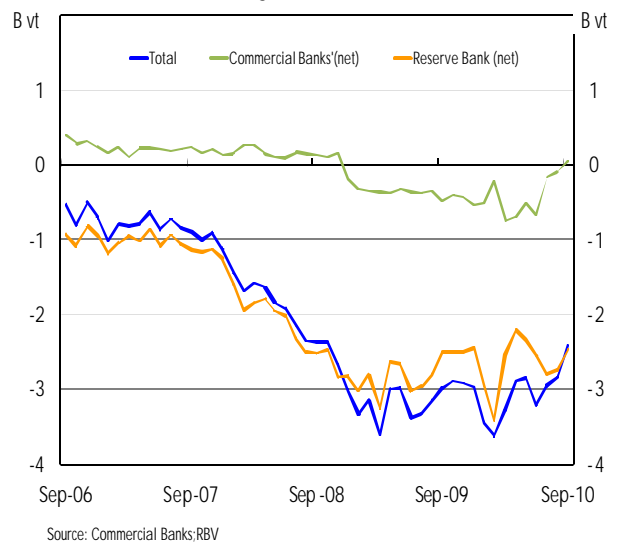
The increase in growth over the month resulted from increases in loans and advances to both business and individuals & households, by 0.5 percent and 1.9 percent respectively. Over the year a similar picture can be seen, with increasing growth in loans to individuals & households, while loans to business increased at a lower rate.

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

Loans extended to municipalities increased 43.4 percent and 42.9 percent over the month and year, respectively. While loans to non-financial public enterprises decreased by 1.8 percent and 12.0 during the month and over the year respectively.

The government's net credit position vis-à-vis the banking system deteriorated in September 2010. This was reflected in increases of 9.7 percent and 169.7 percent in the Reserve Bank and commercial banks' net claims on the government, respectively. The increase in the Reserve Bank's net claims on the government reflected an increase of 129.1 percent in its holdings of government bonds, resulting from a new bond issue in September. The increase in commercial banks' net claims on the government reflected a decline in government deposits held with them. Similarly, the government's net credit position deteriorated over the year to September 2010 (Chart 4).

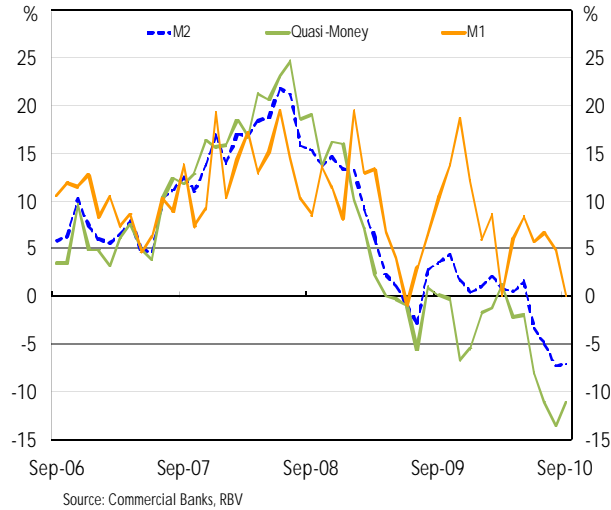
Chart 4: Net Claims on Government
(Billions of Vatu; Monthly Data)



Measures of Money Supply

The growth in M2 was mirrored in both its components, with M1 increasing by 1.0 percent and quasi-money by 2.2 percent. Over the year ending September 2010, the decline in M2 was driven mainly by quasi-money, which fell 11.1 percent, outweighing the growth of 0.1 percent in M1 (Chart 5).

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



The month-on-month increase in M1 was driven by both its components, with currency in circulation increasing by 4.1 percent and demand deposits by 0.3 percent. The increase in currency outside banks likely reflected the growth in private sector credit and government spending as shown in the deterioration in the government's net claims on commercial banks'. Demand deposits denominated in local currency rose by 2.1 percent. However, demand deposits denominated in foreign currency fell by 1.9 percent.

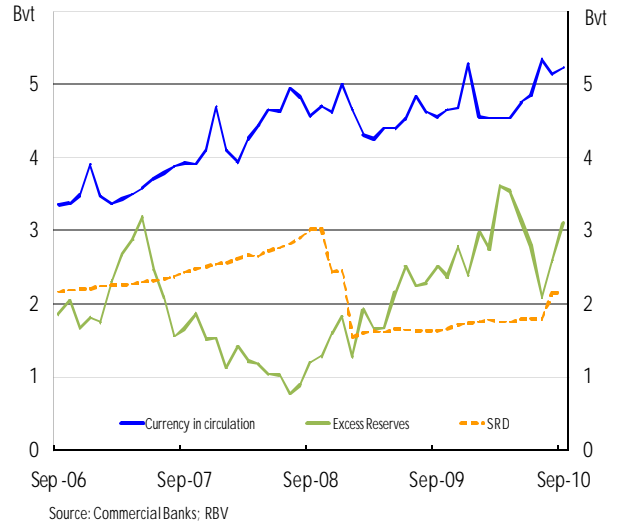
The increase in the level of interest bearing deposits resulted from increases of 2.4 percent and 1.7 percent, in time & savings deposits denominated in local and foreign currencies, respectively.

Reserve Money

Reserve money² increased 6.0 percent in September and 20.9 percent on a year-on-year basis. The increase was due to increases in excess reserves and currency outside banks by 19.8 percent and 4.1 percent respectively. Statutory Reserve Deposits remained virtually unchanged from the previous month. The increase in the excess reserves of commercial banks can be attributed to a decline in outstanding RBV notes and the deterioration in the government's net credit position with the Reserve Bank.

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

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

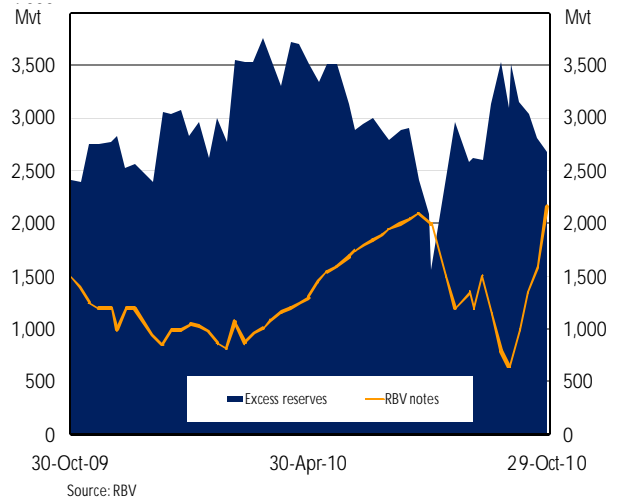


Open Market Operations (OMO) – October 2010

The Bank conducted five Open Market Operations during October 2010, where it issued VT1,950 million in RBV notes compared to VT800 million in September 2010.

Total subscription received for these issues was VT4,850 million, compared to VT1,250 million received during the previous month. This high level of subscription compared to the total offer reflects the high level of liquidity in the system in October.

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



Total maturity for the month was VT850 million, leaving outstanding notes at VT1,750 million as of end October, compared to VT650 billion at the end of September.

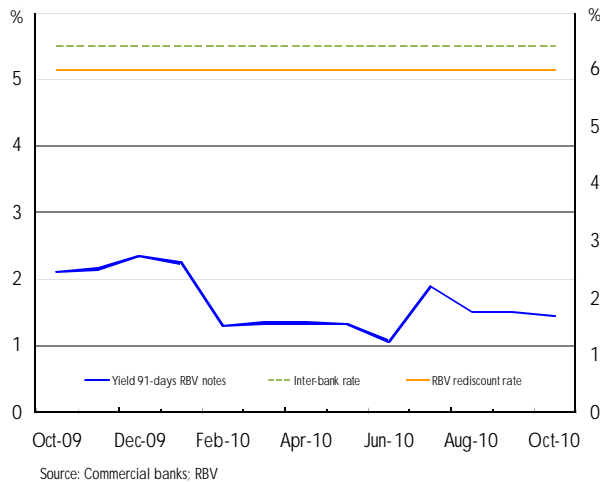
Table 1: Amount Allotted (Millions of Vatu)

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

Table 2: Yields on RBV Notes (Percent)

Term	End Oct. 2010	End Sept. 2010
7 days	0.69	0.88
14 days	0.69	0.88
28 days	0.80	0.88
63 days	1.45	1.50
91 days	1.45	1.50

Chart 8: Short-term Interest rates



The inter-bank rate remained at 5.5 percent.

Interest Rates

Table 3: Interest Rates (Percent)

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

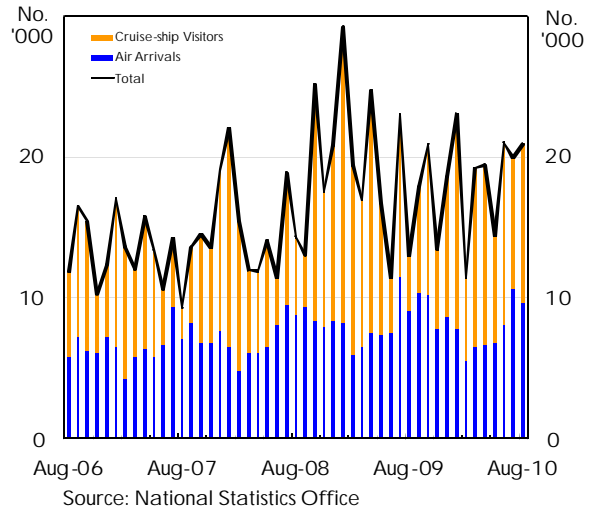
As shown in Table 4, commercial banks' monthly deposit and lending rates remained unchanged from the previous month.

Tourism Update - August 2010

In August 2010, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu, rose 5 percent month-on-month to 20,936 visitors. Compared to August 2009, this was a 61 percent increase.

Day-visitors (mainly cruise-ship) rose 21 percent over the month to 11,304 visitors, with six P&O cruise visits to Port Vila and various en-route calls to the outer-island ports of Mystery Is (3), Wala Is (2) and Champagne Bay (1), originating from Brisbane and Sydney. Compared to August 2009 (three P&O cruise visits with 3,906 visitors), day-visitors rose by 190 percent.

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



Air visitor arrivals declined 9 percent in the month to 9,632 visitors, driven by a drop in arrivals from Australia and New Caledonia. Other Pacific Countries, Japan and Other Markets showed increases in the month. Compared to August 2009, air arrivals rose 6 percent, with growth shown for visitors visiting friends/relatives and meetings/conferences, whilst a decline was recorded for visitors on holiday. An increase was shown for Australia, New Caledonia and Other Pacific Island countries, reflecting regional meetings held in Port Vila in the month. The average length of stay for visitors fell from 11.4 days in July to 8.7 days in August. Compared to the same period of 2009, the cumulative sum for the period January-August 2010 depicted a 3 percent drop in air visitor arrivals and 3 percent drop cruise-ship arrivals.

Exchange Rate Developments – October 2010

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

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Oct-10	94.21	92.23	71.01	131.28
1 month ago	95.23	92.25	70.24	129.75
% Change	-1.1	0.0	1.1	1.2
3 months ago	99.50	88.66	71.82	129.29
% Change	-5.3	4.0	-1.1	1.5
12 months ago	96.27	88.16	70.59	142.85
%Change	-2.1	4.6	0.6	-8.1

Note: (-) appreciation of vatu

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

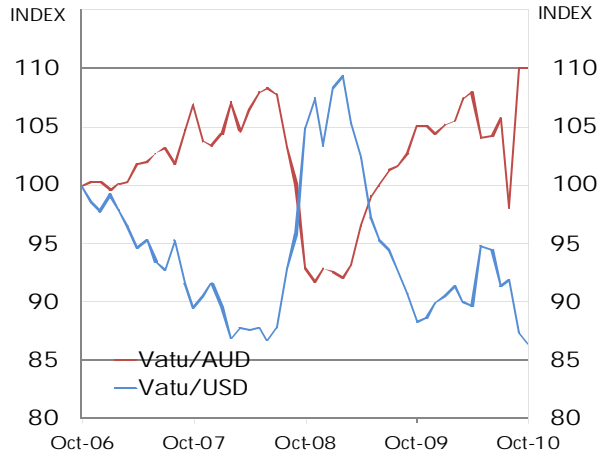
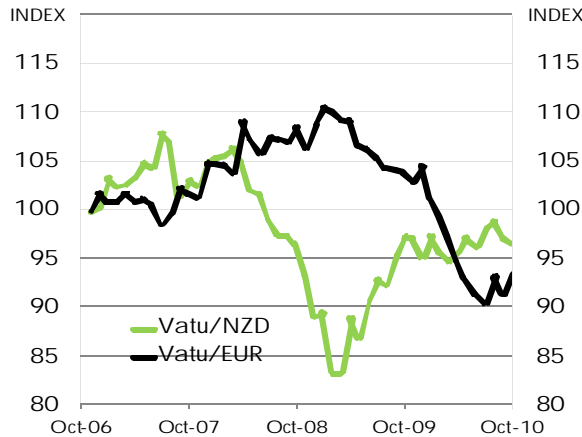


Chart 11: Exchange Rate against NZD and EUR
(Indices; October 2006=100)



During the month, the vatu appreciated against the US dollar (USD) and very marginally against the

Australian Dollar (AUD), but depreciated against the New Zealand dollar (NZD), and Euro (EUR).

The vatu’s appreciation against the USD during the month was driven by increasing expectations of further quantitative easing by the Federal Reserve to support the weaker than expected recovery. Data releases during the month showed that inflation continued to slow, whilst the unemployment rate remained unchanged at 9.6 percent. Federal Reserve Chairman Ben Bernanke had on a number of occasions made the case for further unconventional monetary policy as part of the central bank’s mandate to ensure price stability and maximum employment.

The relatively high prevailing interest rates in Australia, combined with the prospect of further quantitative easing in the US, contributed to the AUD reaching parity with the USD, for the first time since it was floated, around the middle of the month. High resource export prices and expectation of increasing inflation during the third quarter had led to predictions of an interest rate increase by the Reserve Bank of Australia in its early November meeting. However, data released towards the close of the month showed consumer inflation declining in year-ended terms, contributing to a moderation in the currency.

During October, the EUR was supported by expectations of further quantitative easing by the Federal Reserve and Bank of England, in contrast to the European Central Bank, which expects current policy settings to result in medium term inflation close to 2 percent. The second estimate of second quarter GDP growth reaffirmed that the pace of recovery had accelerated considerably from the first quarter, although unemployment remained unchanged at a very high level.

The NZD was supported by indications from the Reserve Bank of New Zealand (RBNZ) Governor, Alan Bollard, that further removal of monetary stimulus may be appropriate, citing high export prices and increased construction-related expenditure in earthquake-hit areas. In the medium term, the RBNZ expects these factors to outweigh the reduced consumer and business confidence experienced during the most recent quarter and support a more optimistic outlook. An increase in the Goods and Services Tax is expected to push up inflation in the short term, but the impact on medium term expectations is projected to be limited.

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

End of Period	Sep-09	Jun-10	Aug-10	Sep-10	%Change		
					1 Month	3 months	12months
Foreign Assets	15276.6	15507.9	15392.9	15312.0	-0.5	-1.3	0.2
Foreign Exchange 1/	11784.8	14882.5	14765.6	14686.1	-0.5	-1.3	24.6
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	3057.6	243.1	245.1	243.6	-0.6	0.2	-92.0
Claims on Government	619.9	620.7	618.9	1417.9	129.1	128.4	128.7
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	2094.6	1914.6	2128.3	2037.1	-4.3	6.4	-2.7
Total Assets	17991.1	18043.2	18140.1	18766.9	3.5	4.0	4.3
Reserve Money	8666.6	9487.2	9889.5	10479.5	6.0	10.5	20.9
Currency outside Banks 3/	3663.6	3924.1	4002.2	4164.9	4.1	6.1	13.7
Commercial Banks Cash	851.8	969.4	1139.5	1051.5	-7.7	8.5	23.4
Commercial Banks Deposit with RBV	4151.2	4593.7	4747.7	5263.1	10.9	14.6	26.8
Foreign Liabilities 2/	3409.3	2813.2	2891.8	2715.0	-6.1	-3.5	-20.4
Government Deposits, of which	3128.6	3169.7	3356.5	3890.0	15.9	22.7	24.3
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	1641.9	1946.4	1346.5	647.8	-51.9	-66.7	-60.5
Other Liabilities	1144.6	626.7	655.8	1034.5	57.7	65.1	-9.6
TOTAL Liabilities	17991.1	18043.2	18140.1	18766.9	3.5	4.0	4.3

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	Sep-09	Jun-10	Aug-10	Sep-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	851.8	969.4	1139.5	1038.3	-8.9	7.1	21.9
Deposits with RBV	4151.2	4593.7	4747.7	5263.1	10.9	14.6	26.8
RBV Notes	1641.9	1946.4	1346.5	647.8	-51.9	-66.7	-60.5
Foreign Assets, of which	30377.5	25751.9	24338.8	22778.2	-6.4	-11.5	-25.0
Claims on non-residents' banks	28013.7	22867.3	20987.1	20063.1	-4.4	-12.3	-28.4
Claims on Private sector	38152.0	41571.2	41887.5	42473.3	1.4	2.2	11.3
Claims on Government	434.5	686.7	686.7	686.7	0.0	0.0	58.0
Other claims 1/	121.2	114.4	108.8	113.2	4.1	-1.0	-6.5
Other Assets	3519.2	3742.2	2825.9	3715.0	31.5	-0.7	5.6
TOTAL ASSETS	79249.2	79375.9	77081.5	76715.6	-0.5	-3.4	-3.2
Demand Deposits, of which	17502.5	16794.2	16987.7	17030.2	0.3	1.4	-2.7
Foreign currency	9415.4	8249.7	7732.7	7584.8	-1.9	-8.1	-19.4
Savings deposits, of which	4313.5	5251.4	4808.9	5226.6	8.7	-0.5	21.2
Foreign currency	208.8	996.2	374.1	406.6	8.7	-59.2	94.8
Time deposits, of which	34153.8	29774.5	28656.9	28962.0	1.1	-2.7	-15.2
Foreign Currency	17187.2	11978.5	10735.9	10889.8	1.4	-9.1	-36.6
Foreign Liabilities, of which	7366.9	11071.4	12584.1	12210.7	-3.0	10.3	65.8
Non residents Banks	2289.5	3371.8	3016.6	3168.3	5.0	-6.0	38.4
Government Deposits	908.1	1349.0	778.8	622.5	-20.1	-53.9	-31.4
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15004.5	15135.3	13265.1	12663.6	-4.5	-16.3	-15.6
TOTAL LIABILITIES	79249.2	79375.9	77081.5	76715.6	-0.5	-3.4	-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	Sep-09	Jun-10	Aug-10	Sep-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	34,877.8	27,375.1	24,255.8	23,164.5	-4.5	-15.4	-33.6
Monetary Authorities (Net)	11,867.2	12,694.7	12,501.1	12,596.9	0.8	-0.8	6.1
Commercial Banks (Net)	23,010.6	14,680.4	11,754.7	10,567.5	-10.1	-28.0	-54.1
2. Net Domestic Assets	24,755.5	28,368.9	30,200.0	32,220.3	6.7	13.6	30.2
(a) Domestic Credit	35,952.8	39,241.2	40,012.1	41,011.1	2.5	4.5	14.1
(i) Net claims on government	(2,982.3)	(3,211.3)	(2,829.7)	(2,407.9)	14.9	25.0	19.3
Monetary Authorities	(2,508.7)	(2,548.9)	(2,737.6)	(2,472.1)	9.7	3.0	1.5
Commercial Banks	(473.6)	(662.3)	(92.1)	64.2	169.7	109.7	113.6
(ii) Claims on Non financial Public enterprises (NFPE)	109.1	99.1	96.8	95.9	-0.8	-3.1	-12.0
(iii) Claims on Private Sector (1)	38,813.9	42,338.0	42,732.9	43,304.8	1.3	2.3	11.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	1.0	0.0	0.0	0.0
(v) Claims on Municipalities	12.1	15.3	12.1	17.3	43.4	12.7	42.9
(b) Other items (net)	(11,197.3)	(10,872.3)	(9,812.1)	(8,790.8)	-10.4	-19.1	-21.5
3. Total Assets= Total Money Supply (M2)	59,633.4	55,744.3	54,455.8	55,383.8	1.7	-0.6	-7.1
(a) Money (M1)	21,166.1	20,718.3	20,989.9	21,195.2	1.0	2.3	0.1
(i) Currency outside Banks	3,663.6	3,924.1	4,002.2	4,164.9	4.1	6.1	13.7
(ii) Demand deposits	17,502.5	16,794.2	16,987.7	17,030.2	0.3	1.4	-2.7
(b) Quasi-money	38,467.3	35,026.0	33,465.9	34,188.6	2.2	-2.4	-11.1
(i) Saving Deposits	4,313.5	5,251.4	4,808.9	5,226.6	8.7	-0.5	21.2
(ii) Time Deposits	34,153.8	29,774.5	28,656.9	28,962.0	1.1	-2.7	-15.2

1) Include RBV staff loans and credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Sep-09	Jun-10	Aug-10	Sep-10
1. Net Foreign Assets	571.7	(1,435.9)	(575.2)	(1,091.3)
Monetary authorities	(130.8)	367.6	(58.3)	95.8
Commercial Banks	702.5	(1,803.5)	(516.8)	(1,187.1)
2. Domestic Money creation	341.4	(9.5)	344.2	2,020.3
(a) Domestic credit	473.9	371.7	(135.8)	999.0
Net Claims on Government	168.0	(369.4)	123.8	421.7
Monetary Authorities (net)	294.1	(205.6)	51.3	265.5
Commercial Banks (net)	(126.0)	(163.8)	72.5	156.3
Claims on non financial public enterprises	(2.1)	(0.8)	(1.8)	(0.8)
Claims on Private sector	310.2	739.1	(259.1)	571.9
(b) Other Domestic factor	(132.5)	(381.2)	480.0	1,021.3
3. Money Supply creation (M4)	913.2	(1,445.1)	(231.0)	928.0
Money (M1)	1,149.7	(189.2)	(140.4)	205.2
Quasi-money	(236.5)	(1,255.9)	(90.6)	722.7

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