



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 144

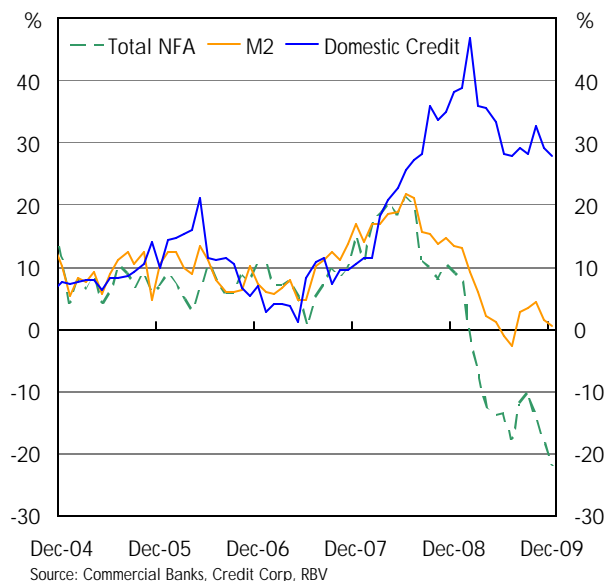
January 2010

MONETARY SURVEY

Growth in total money supply decelerated to 0.3 percent in December 2009, from 1.0 percent recorded in November. The growth during the month was driven mainly by domestic credit, in particular private sector credit; the volume of net foreign assets (NFA) further declined during the month. Due to the sluggish monthly growth, the growth rate of total money supply over the year to December 2009 decelerated to 0.5 percent, as compared to 1.7 percent recorded over the year to November 2009.

Chart 1 shows that the slowdown in the year-ended growth of money supply (M2) during December 2009 was driven by deceleration in the growth rate of domestic credit and the decline in net foreign assets (NFA).

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



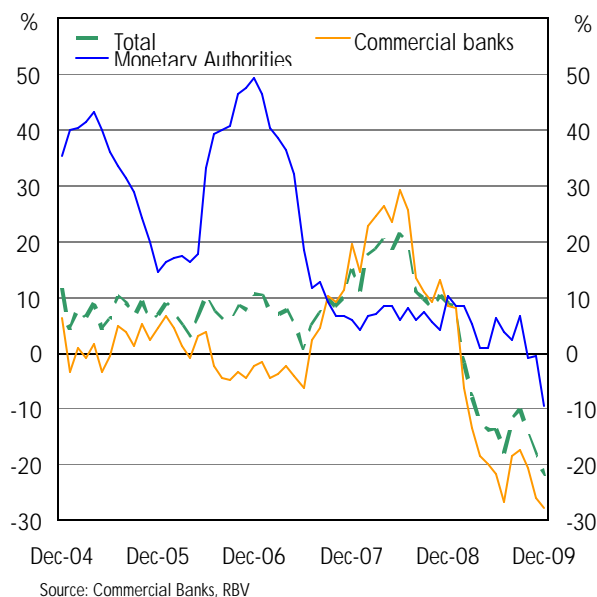
Determinants of Money Supply

Total NFA continued to depict a negative growth rate of 2.2 percent and 22.1 percent over the month and

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over the year to December 2009, respectively. The decline was driven mainly by decreases in the NFA positions of both the monetary authorities and commercial banks. The monetary authorities showed declines of 1.3 percent and 9.5 percent, during the month and over the previous year, respectively, whilst the commercial banks recorded negative growth rates of 2.7 percent during the month, and 27.9 percent over the year to December 2009.

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



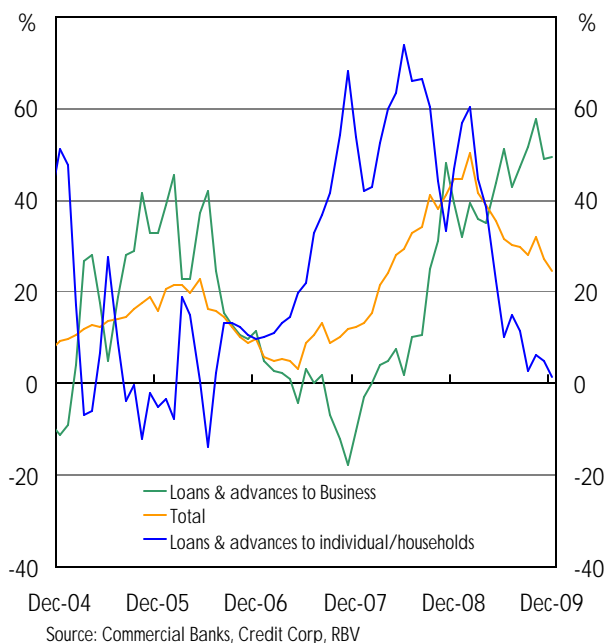
The fall in the NFA of the monetary authority was caused by a 3.8 percent decline in its gross foreign assets, which more than offset a decline in the Bank's foreign liabilities. However, the Reserve Bank witnessed net inflows of foreign exchange during the month under review, bulk of which came through interest income on foreign reserves, followed by Government, commercial banks and a foreign embassy. Conversely, sales of foreign exchanges were made to, commercial banks,

government for external loan repayments and others. Overall the economy's level of foreign reserves has continued to remain comfortable and at the end of 2009 it was sufficient to finance 5.9 months of the country's import bills.

The downtrend in commercial banks' holdings of NFA continued to reflect a decline in their holdings of foreign assets; likewise commercial banks' foreign liabilities have increased during the month and therefore partly attributed to the overall decline in their NFA.

On domestic assets, the growth in domestic credit picked up to 1.3 percent in December, from 0.5 percent in November. Increases in loans to the private sector and municipalities were the largest contributors to this growth, net credit to the Government and credit to non-financial public enterprises, however, recorded declines during the month. The annual growth rate of domestic credit over the year to December 2009 slowed further to 27.8 percent, from 29.3 percent, over the year to November 2009.

Chart 3: Private Sector Credit
(Percentage change, Year-on-Year Growth)



Growth in private sector credit¹ has increased to 1.4 percent in December, from 0.5 percent in November. Despite the month's increase, the annual growth rate over the year to December 2009 has slowed further to 25.1 percent, down from 27.6 percent during November 2009.

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

The main contributing category to this monthly growth was personal loans. Housing and land loans, construction, tourism, other sectors² and the agriculture sector made minor contributions to growth. Transport, manufacturing, professional & other services, distribution and miscellaneous sectors made negative contributions to growth.

Loans extended to business increased by 2.1 percent, whilst credit to individuals and households recorded an increase of 0.1 percent during the month under review. Over the year to December 2009, growth in loans to business picked up to 49.4 percent from 48.9 percent, recorded over the year to November 2009. Meanwhile, growth in personal loans decelerated to 1.3 percent over the year to December 2009 from 5.0 percent over the year to November 2009 (Chart 3).

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

Table 1: COMMERCIAL BANKS SECTORAL DISTRIBUTION OF LOANS & ADVANCES

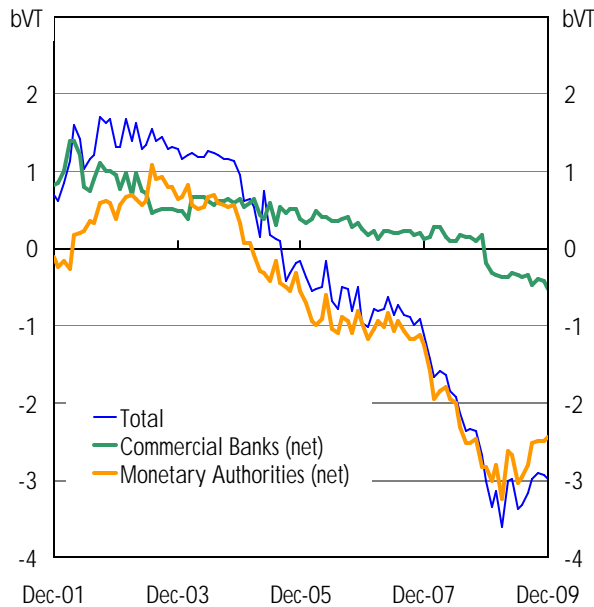
SECTOR	(Millions of Vatu)			% change	
	Dec-08	Nov-09	Dec-09	1 Month	12 Months
Agriculture	393.695	585.76	595.345	1.6	51.2
Fisheries	79.171	49.1	52.155	6.2	-34.1
Mining & Quarrying	102.188	125.982	129.937	3.1	0.0
Manufacturing	1356.995	2158.974	2084.544	-3.4	53.6
Tourism	2187.407	2978.468	3020.133	1.4	38.1
Entertainment & Catering	81.558	136.987	134.966	-1.5	65.5
Transport	1458.366	1653.744	1650.954	-0.2	13.2
Public Utilities	10.037	36.378	36.024	-1.0	258.9
Construction	3645.225	5041.566	5182.735	2.8	42.2
a) Government	0.233	0.951	5.099	0.0	0.0
b) Public Corporation	22.29	26.725	37.534	40.4	68.4
Financial Institutions	170.66	1744.137	1762.363	1.0	932.7
Professional & Other Services	1576.38	2076.604	1969.381	-5.2	24.9
Distribution	2899.166	3272.219	3267.229	-0.2	12.7
Housing & Land Purchases	10518.592	12022.611	12226.888	1.7	16.2
Personal: Others	6563.796	5067.399	5650.896	11.5	-13.9
Miscellaneous	1702.588	3334.399	3047.596	-8.6	79.0
TOTAL	32,768.3	40,312.0	40,853.8	1.3	24.7
Of which: Vatu	30535.9	34305.9	34121.1	-0.5	11.7

Loans extended to non-financial public enterprises fell by 0.9 percent during the month, but remained 49.5 percent higher over the year. Loans to municipalities

² This includes a combination of sectors such as Fisheries, Mining & Quarrying, Entertainment & Catering, Public Utilities, Government, Public Corporation and Financial Institutions.

increased by 30.2 percent and 27.8 percent over the month and year respectively.

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



Sources: Commercial banks; RBV
Nb: A negative number implies that the Government is in a net credit position.

The Government's net borrowing from the banking system declined by 1.8 percent during the month. This improvement mainly reflected the accumulation of Government deposits with commercial banks, which offset a further decline in Government deposits with the Reserve Bank. Over the year to December 2009, the Government's net credit position vis-à-vis the banking system deteriorated implying that the Government has been increasingly withdrawing its deposits from the banking system to finance the imbalances in its budget during this year (Chart 4).

Measures of Money Supply

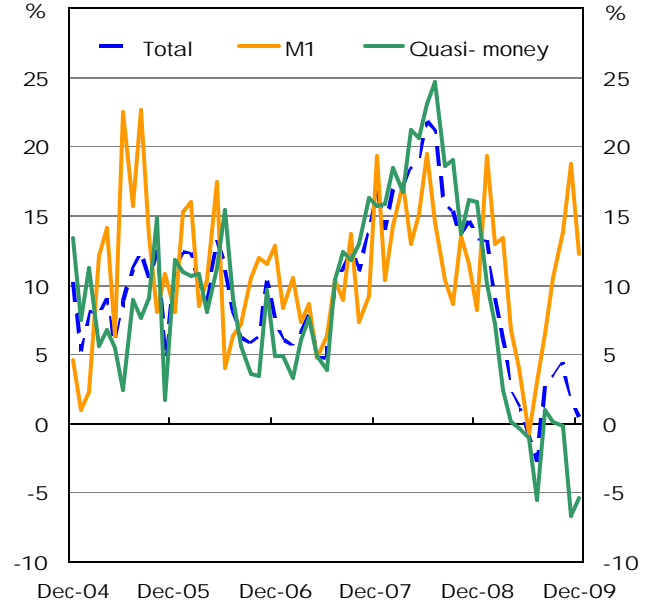
Total money supply growth during the month was driven by increases in quasi money which more than offset a decline in narrow money (M1) (Chart 5).

M1 fell by 2.4 percent during the month, owing to a decline of 3.0 percent in demand deposits, which outweighed the increase in currency outside banks. Money flow into the economy continued to remain substantial over the year, as shown by the 12.2 percent annual growth rate of M1.

The fall in demand deposits was made up by an 8.6 percent decline in its local currency component which offset the 1.3 percent increase in demand deposits denominated in foreign currency. The offsetting effect of the fall in demand deposits in local currency was

seen partly in the increase in currency outside banks, reflecting a seasonal high level of spending during the festive period towards the end of the year furthermore implies that there was a switch towards increasing savings rather than keeping money on-demand during the month, as mirrored in the increase in quasi-money. The increase in demand deposits in foreign currency reflected the high demand for overseas trade transactions, as reflected in the increase in imports.

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



Source: Commercial Banks, RBV

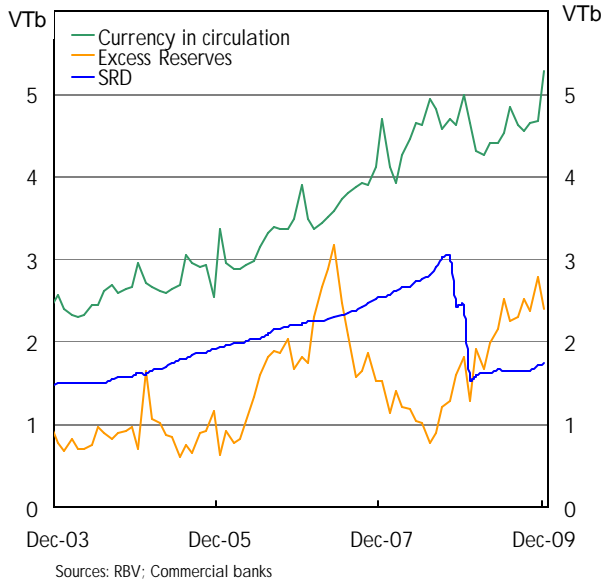
Quasi money rose by 2.0 percent during the month under review, however fell by 5.4 percent over the year to December 2009. The monthly increase was due to increases of 1.1 percent and 3.2 percent in time and savings deposits denominated in local currency and foreign currency respectively. This trend indicated that residents increased their investments in interest bearing deposits during the month.

Reserve Money

Reserve money³ increased by 2.8 percent in December and 1.5 percent higher over the year to December 2009. The increase was mainly reflected in currency in circulation and SRD. Currency in circulation rose by 13.0 percent, reflecting the seasonal high level of spending at the end of the month. Excess reserves on the other hand declined over the month, in part due to the easing of OMO, as reflected in the decline in outstanding RBV notes by 20.8 percent and the offsetting effect of the increase in currency in circulation.

³ Reserve money comprises of currency in circulation, Statutory Reserve Deposits (SRD) and Excess Reserves.

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

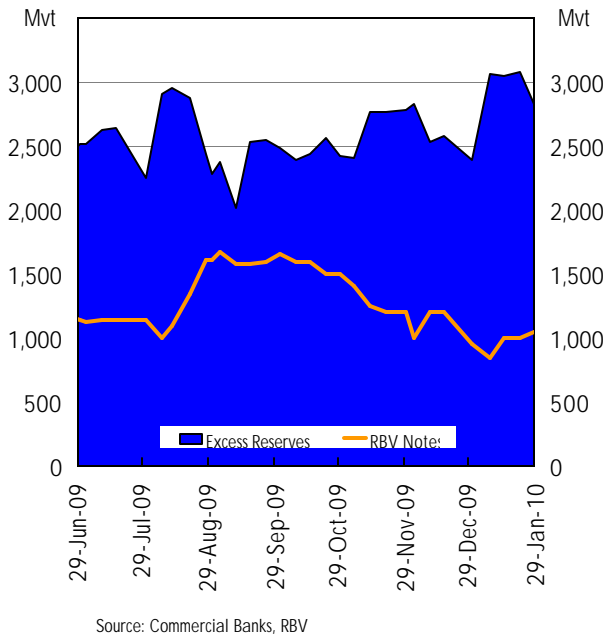


Open Market Operations (OMO) – January 2010

The Bank conducted four OMOs during January 2010 where VT850 million worth of RBV notes were issued, compared to VT750 million in December 2009.

Total subscription received for these issues was VT2,285 million, compared to VT1,300 million received during the previous month. This high and increasing level of subscription compared to the level of issue reflects a more than adequate level of liquidity in the system and a reasonable appetite for RBV notes.

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

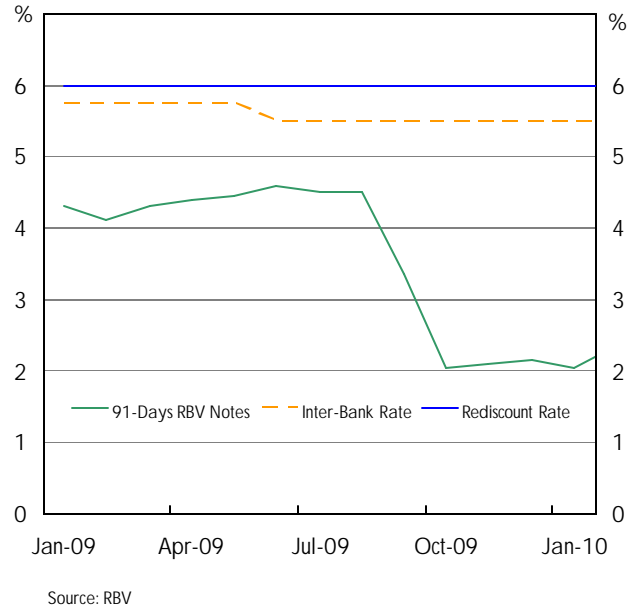


Allotments were made as follow:

- 7 days: VT100 million
- 14 days: VT220 million
- 28 days: VT210 million
- 63 days: VT185 million
- 91 days: VT135 million

Total maturity for the month was VT750 million, leaving outstanding notes at VT1,050 million as of end January, compared to VT950 at the end of the previous month.

Chart 8: Short-term Interest rates



Yields of RBV Notes

Yields on RBV Notes as of end January 2010:

Term	End Jan-09	End Dec-09
7 Days:	2.00%	1.40%
14 days:	1.50%	2.15%
28 days:	1.85%	2.25%
63 days:	1.50%	2.40%
91 days:	2.25%	2.35%

The inter-bank rate and the RBV's rediscount rates remained at 5.5 percent and 6.00 percent respectively (Chart 8).

Interest Rates

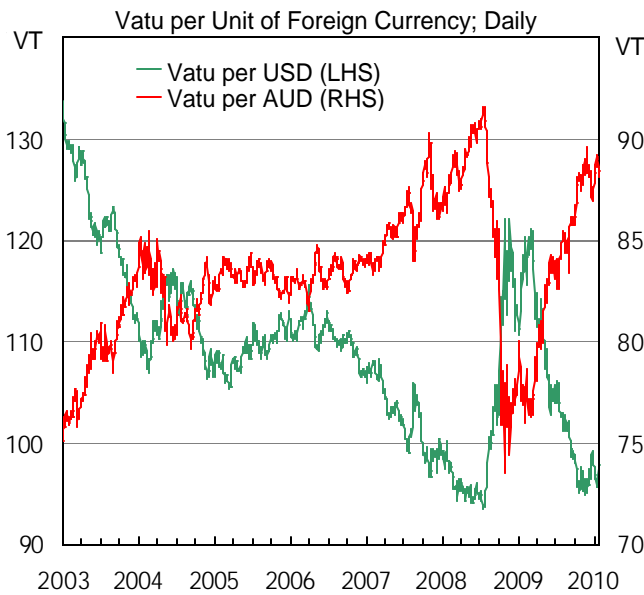
Commercial banks' deposit and lending interest rates range have been maintained as in the previous month, detailed in Table 3.

Table 2: Interest Rates
Deposit Interest Rates

	Savings	1-mnth	2-6 Months	Above 6 Months
Oct09	0.5-5.00	1.25-8.00	1.25-8.45	2.25-9.80
Nov09	0.5-5.00	1.25-8.00	1.25-8.45	2.25-9.80
Dec09	0.5-5.00	1.25-8.00	1.25-8.00	2.25-9.80
Advance Rates				
	Commercial	Personal	Housing	Agriculture
Oct09	9.50-19.5	5.5-26.5	8.99-13.0	9.99-19.5
Nov09	9.50-23.0	5.5-26.5	8.99-13.0	9.99-19.5
Dec09	9.50-23.0	5.5-26.5	8.99-13.0	9.99-19.5

Exchange Rate Developments – January 2010

Vanuatu Vatu



Vanuatu Vatu

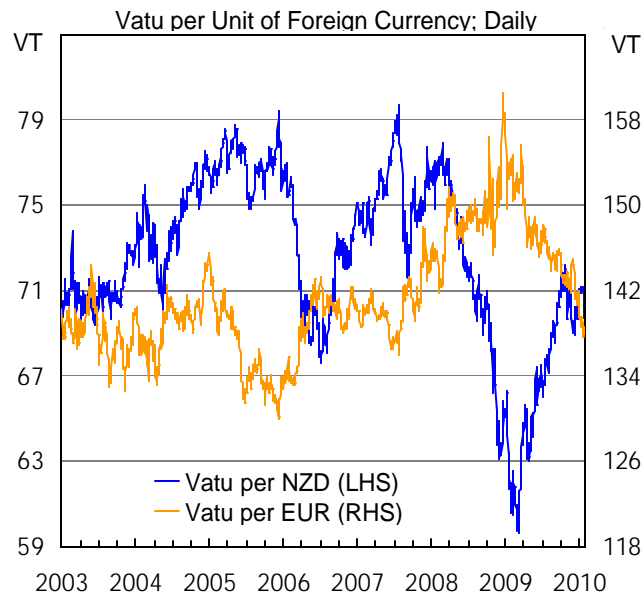


Table.3 FCY/Vatu Mid-Rates for January 2010

Major Currency	4-Jan-10	29-Jan-10	% Change Over Jan-10	Low	High
USD	97.70	98.65	0.97%	95.72	98.65
EUR	139.97	137.77	-1.57%	137.54	139.97
AUD	87.79	88.19	0.46%	87.79	89.19
NZD	70.74	69.46	-1.81%	69.49	71.19
JPY	1.0503	1.0971	4.46%	1.0364	1.0971

nb. A negative change denotes an appreciation of the Vatu

Table. 4 FCY/USD Mid-Rates for January 2010

Major Currency	4-Jan-10	29-Jan-10	% Change Over Jan-10	Low	High
EUR	1.4326	1.3965	-2.52%	1.3965	1.4513
AUD	0.8986	0.8940	-0.51%	0.8940	0.9316
NZD	0.7240	0.7044	-2.71%	0.7044	0.7430
GBP	1.6171	1.6125	-0.28%	1.5936	1.6371
JPY	93.03	89.92	-3.34%	89.64	93.33

nb. A negative change denotes an appreciation of the USD
nb2. JPY figures alone are reported in direct quotes.

The U.S. Dollar (USD) appreciated against most major currencies over the month, mainly as a result of an improving US economic outlook. The fiscal problems faced in the EURO Zone, especially Greece, also contributed to the USD appreciation, as investors sought to shed risk. A more upbeat assessment of the US economy was given by Federal Reserve towards the end of the month, but the Fed funds rate remained unchanged at 0.25%.

Better than expected employment data in Australia caused the Australian dollar (AUD) to appreciate heavily against the USD to reach 93 US cents around mid January. However, by end of the month, the AUD lost all its gains to settle around 89 US cents as news of China tightening its commercial bank reserve requirements coupled with news of growing fiscal problems in the EURO zone weighted on the currency.

The New Zealand dollar (NZD) fell 2.71% against the USD over the month of January 2010. The two main drivers for the decline in the NZD were; (1) Increased unemployment figures to 7.3% against an expectation of 6.8%, and; (2) Fall in employment by 0.1%.

The Euro (EUR) fell 2.52% against the USD over the month. With unemployment rate in the Euro zone reaching 10% and fiscal debt issues with Greece, the EUR currency held reduced appeal for investors.

Over the month, the Japanese Yen (YEN) rose 3.34% against the USD. The currency's appreciation was mainly driven by risk aversion.

The Vatu appreciated against the EUR and NZD, and depreciated against the rest of the major currencies listed in Table 3.

MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

END OF PERIOD	Dec-08	Sep-09	Nov-09	Dec-09	%Change		
					1 Month	3 months	12months
Foreign Assets	12979.0	15276.6	15124.6	14554.3	-3.8	-4.7	12.1
Foreign Exchange 1/ Reserve Position with IMF	12319.3	11784.8	11629.9	13928.0	19.8	18.2	13.1
SDR Holdings	434.2	434.2	434.2	382.2	-12.0	-12.0	-12.0
Claims on Government	225.6	3057.6	3060.5	244.1	-92.0	-92.0	8.2
Advances to Statutory bodies	620.8	619.9	618.5	618.5	0.0	-0.2	-0.4
Advances to Commercial Banks o/w under Repurchase Agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	650.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	1531.1	2094.6	2209.2	1929.1	-12.7	-7.9	26.0
TOTAL ASSETS	15780.9	17991.1	17952.2	17101.9	-4.7	-4.9	8.4
Reserve money	9277.4	8666.6	9164.4	9420.8	2.8	8.7	1.5
Currency Outside Banks 3/ Commercial Banks Cash	3756.4	3663.6	3895.9	3916.5	0.5	6.9	4.3
Commercial Banks deposits with RBV	1247.7	851.8	778.7	1365.2	75.3	60.3	9.4
	4273.3	4151.2	4489.8	4139.1	-7.8	-0.3	-3.1
Foreign Liabilities 2/ Government Deposits, of which Government Contribution to RTP	164.8	3409.3	3368.0	2954.7	-12.3	-13.3	1692.7
	3441.3	3128.6	3108.6	3057.7	-1.6	-2.3	-11.1
	434.2	434.2	434.2	382.2	-12.0	-12.0	-12.0
Reserve Bank Notes	1275.2	1641.9	1195.3	946.4	-20.8	-42.4	-25.8
Other Liabilities	1622.1	1144.6	1116.0	722.3	-35.3	-36.9	-55.5
TOTAL LIABILITIES	15780.9	17991.1	17952.2	17101.9	-4.7	-4.9	8.4

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	Dec-08	Sep-09	Nov-09	Dec-09	%Change		
					1 Month	3 months	12 Month
Domestic currency	1247.7	851.8	778.7	1365.2	75.3	60.3	9.4
Deposits with RBV	4273.3	4151.2	4489.8	4139.1	-7.8	-0.3	-3.1
Reserve Bank Notes	1275.2	1641.9	1195.3	946.4	-20.8	-42.4	-25.8
Foreign Assets, of which	36695.3	29170.8	28963.0	28779.1	-0.6	-1.3	-21.6
Claims on non-resident banks	34072.5	28013.7	27581.6	27552.0	-0.1	-1.6	-19.1
Claims on private sector	32768.3	39358.7	40312.0	40853.8	1.3	3.8	24.7
Claims on Government	482.4	434.5	434.5	434.5	0.0	0.0	-9.9
Other Claims 1/ Other Assets	84.6	121.2	120.9	123.7	2.3	2.1	46.2
	2446.3	3519.2	3320.4	3884.8	17.0	10.4	58.8
TOTAL ASSETS	79273.1	79249.2	79614.6	80526.6	1.1	1.6	1.6
Demand Deposits, of which	16255.6	17502.5	19111.8	18531.8	-3.0	5.9	14.0
Foreign currency	8564.9	9415.4	10770.8	10906.6	1.3	15.8	27.3
Savings deposits, of which	4577.4	4313.5	4529.7	4327.9	-4.5	0.3	-5.5
Foreign currency	261.7	208.8	229.4	280.8	22.4	34.5	7.3
Time deposits, of which	35283.2	34153.8	32424.0	33369.5	2.9	-2.3	-5.4
Foreign currency	19981.9	17187.2	15578.7	16037.3	2.9	-6.7	-19.7
Foreign Liabilities, of which	8631.9	7366.9	8170.0	8540.9	4.5	15.9	-1.1
Non residents banks	1335.8	2289.5	3114.8	3381.8	8.6	47.7	153.2
Government Deposits	671.7	908.1	861.8	966.2	12.1	6.4	43.8
Credit from RBV	650.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities, including shareholders' funds	13203.3	15004.5	14517.3	14790.4	1.9	-1.4	12.0
TOTAL LIABILITIES	79273.1	79249.2	79614.6	80526.6	1.1	1.6	1.6

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	Dec-08	Sep-09	Nov-09	Dec-09	% Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	40,877.6	33,671.1	32,549.7	31,837.8	-2.2	-5.4	-22.1
Monetary Authorities (Net)	12,814.2	11,867.2	11,756.6	11,599.7	-1.3	-2.3	-9.5
Commercial Banks (Net)	28,063.4	21,803.9	20,793.0	20,238.1	-2.7	-7.2	-27.9
2. Net Domestic Assets	18,995.0	25,962.2	27,411.8	28,307.8	3.3	9.0	49.0
(a) Domestic Credit	30,290.2	37,159.5	38,200.5	38,705.7	1.3	4.2	27.8
(i) Net claims on Government	(3,009.9)	(2,982.3)	(2,917.4)	(2,970.9)	-1.8	0.4	1.3
Monetary Authorities	(2,820.5)	(2,508.7)	(2,490.2)	(2,439.2)	2.0	2.8	13.5
Commercial Banks	(189.4)	(473.6)	(427.3)	(531.7)	-24.4	-12.3	-180.8
(ii) Claims on Non financial public enterprises(NFPE)	71.8	109.1	108.2	107.3	-0.9	-1.7	49.5
(iii) Claims on Private Sector (1)	33,215.5	40,020.6	40,997.0	41,552.9	1.4	3.8	25.1
(iv) Claims on other financial Institution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	12.9	12.1	12.6	16.5	30.2	36.2	27.8
(b) Other items (net)	(11,295.2)	(11,197.3)	(10,788.7)	(10,397.9)	-3.6	-7.1	-7.9
3. Total Assets = Total Money Supply (M2)	59,872.6	59,633.4	59,961.4	60,145.6	0.3	0.9	0.5
(a) Money (M1)	20,012.0	21,166.1	23,007.7	22,448.3	-2.4	6.1	12.2
(i) Currency outside banks	3,756.4	3,663.6	3,895.9	3,916.5	0.5	6.9	4.3
(ii) Demand deposits	16,255.6	17,502.5	19,111.8	18,531.8	-3.0	5.9	14.0
(b) Quasi Money	39,860.6	38,467.3	36,953.7	37,697.4	2.0	-2.0	-5.4
(i) Savings Deposits	4,577.4	4,313.5	4,529.7	4,327.9	-4.5	0.3	-5.5
(ii) Time deposits	35,283.2	34,153.8	32,424.0	33,369.5	2.9	-2.3	-5.4

1)Includes RBV staff loans and Credit Corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Dec-08	Sep-09	Nov-09	Dec-09
1 Net Foreign Assets	1,015.4	599.0	(0.1)	(711.8)
Monetary Authorities	999.2	(130.8)	47.8	(157.0)
Commercial Banks	16.2	729.7	(47.8)	(554.9)
2 Domestic Money Creation	(121.1)	314.2	582.1	896.0
(a) Domestic Credit	743.6	446.7	181.8	505.2
Net Claims on Government	(339.5)	168.0	(22.4)	(53.5)
Monetary Authorities (net)	15.2	294.1	3.0	50.9
Commercial Banks (net)	(354.7)	(126.0)	(25.5)	(104.4)
Claims on non financial public enterprises(NFPE)	(0.4)	(2.1)	(0.4)	(1.0)
Claims on Private Sector	1,086.1	283.0	204.7	555.9
(b) Other Domestic Factor	(864.7)	(132.5)	400.3	390.8
3 Money Supply Creation(M4)	894.3	913.2	582.0	184.2
Money (M1)	633.4	1,149.7	1,345.4	(559.4)
Quasi Money	261.0	(236.5)	(763.4)	743.6

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