



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

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Issue 154

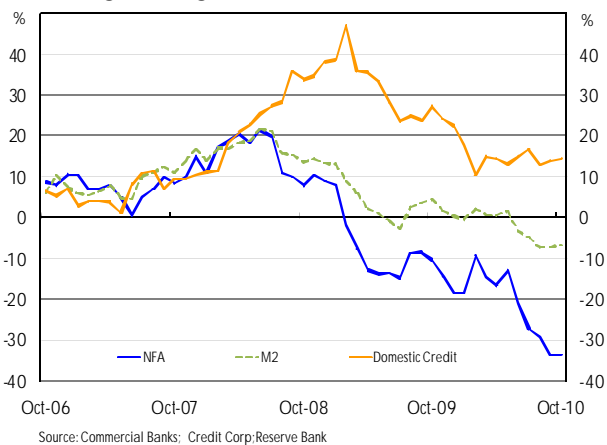
November 2010

MONETARY SURVEY

Total money supply (M2) remained roughly constant in October, after increasing by 1.7 percent during September. The October figure represented a 2.0 percent decrease in the banking system's net foreign assets (NFA), which was counterbalanced by a 2.1 percent increase in domestic credit. The annual growth rate of M2 for the year ending October 2010 remained negative at -6.7 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.

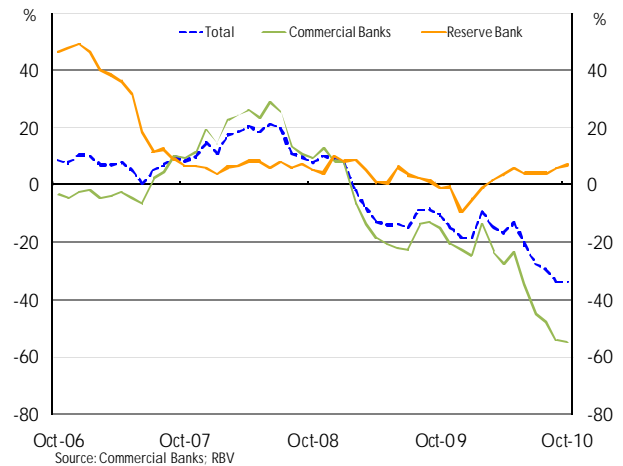
Chart 1: Total Money Supply
(Percentage Change; Year-on-Year Growth)



Determinants of Money Supply

The total NFA of the banking system continued trending downwards, contracting by 2.0 percent in October, driven by a 3.9 percent decline in the NFA holdings of commercial banks and a 0.4 percent decline in the Reserve Bank's holdings. The year-on-year growth rate of NFA remained negative at -33.4 percent.

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



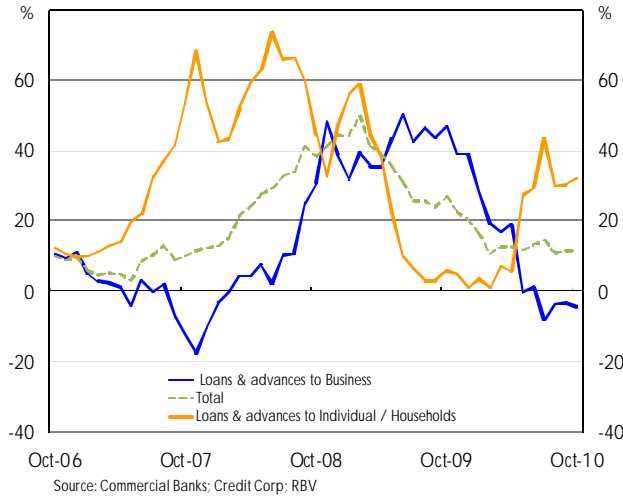
The decrease in the NFA of the Reserve Bank mainly stemmed from a 0.4 percent decline in its foreign assets, with its foreign liabilities remaining largely unchanged. The decline in its foreign assets reflected net outflows of foreign exchange during the month. The projected months of import cover remained unchanged from August at 6.1. The year-on-year records showed an improvement of 7.1 percent in the Reserve Bank's NFA position.

Commercial banks' NFA declined during October as a result of their foreign asset holdings contracting by 1.9 percent, whilst their foreign liabilities declined by 0.1 percent. Over the year to October 2010, the growth in commercial banks' NFA remained negative at -54.6 percent.

Domestic credit growth slowed slightly in October, expanding by 2.1 percent following an increase of 2.5 percent in September. This monthly increase triggered the annual growth rate to increase to 14.8 percent from 14.1 percent recorded over the year to the previous month. The increase during October was attributed to increases in credit to the private sector and other financial institutions as well as an increase in banking system net claims on the

government. Banks' claims on non-financial public enterprises and municipalities recorded declines.

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



Private sector credit¹ expanded by 1.3 percent in October, lower than 2.0 percent recorded in September. The annual growth rate rose marginally to 11.8 percent in October, from 11.6 percent over the year to September 2010.

Growth over the month resulted from increases in loans and advances to individuals and households by 2.5 percent, while loans to business remain virtually unchanged. Over the year a similar picture can be seen, with increasing growth in loans to individuals & households, while loans to business remain steady.

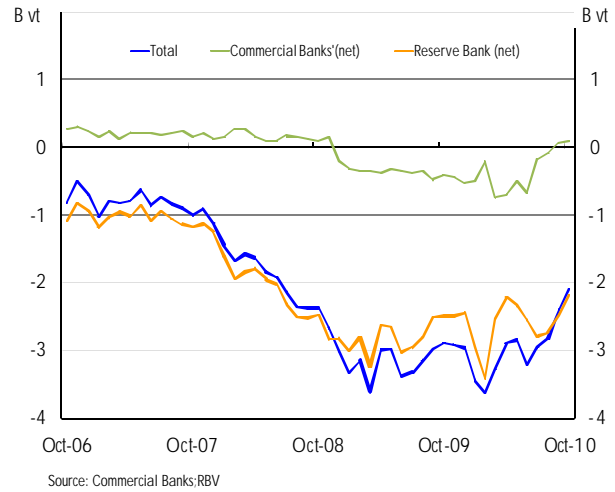
Loans extended to municipalities decreased 1.2 percent over the month, but recorded positive growth of 33.9 percent over the year. While loans to non-financial public enterprises decreased by 20.4 percent and 29.7 percent during the month and over the year respectively.

The government's net credit position vis-à-vis the banking system continued to deteriorate in October 2010. This was reflected in increases of 11.5 percent and 50.2 percent in the Reserve Bank and commercial banks' net claims on the government, respectively. The increase in the RBV's net claims on the government reflected the depletion of the government's operating accounts with the RBV. The increase in commercial banks' net claims on the government reflected a decline in government

¹Include data from Commercial banks, Credit Corp and RBV

deposits held with them. Similarly, the government's net credit position deteriorated over the year to October 2010 (Chart 4).

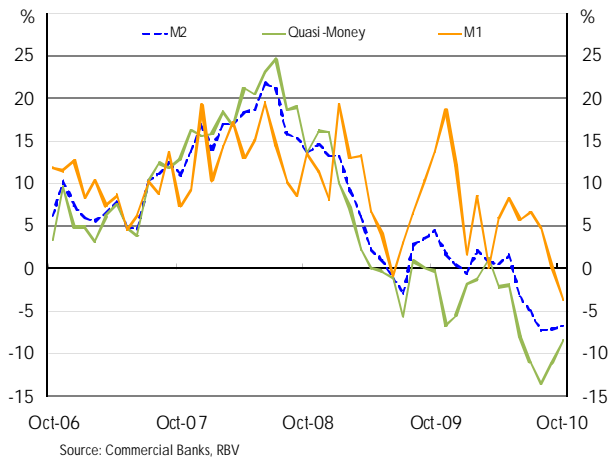
Chart 4: Net Claims on Government
(Billions of Vatu; Monthly Data)



Measures of Money Supply

The stable level of M2 resulted from a 1.0 percent increase in quasi-money balancing out a decrease in M1 of 1.5 percent. Over the year ending October 2010, a 6.7 percent decline in M2 was driven mainly by quasi-money, which fell 8.5 percent, whilst M1 declined by 3.6 percent (Chart 5).

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



The month-on-month decline in M1 was driven by a 2.3 percent decline in demand deposits, with currency outside banks increasing by 1.8 percent. The increase in currency in circulation likely reflected the growth in private sector credit and government spending as shown in the deterioration

in the government's net claims on the banking system. Demand deposits denominated in local currency declined by 4.7 percent. However, demand deposits denominated in foreign currency increased by 0.7 percent.

The increase in the level of interest bearing deposits resulted from increases of 1.0 percent in both time & savings deposits denominated in local and foreign currencies.

Reserve Money

Reserve money² fell by 4.4 percent in October, but increased 14.7 percent on a year-on-year basis. The monthly decline was due to a reduction in commercial banks' deposits with the RBV and their cash holdings by 7.8 percent and 12.0 percent respectively. A decrease in commercial banks' excess reserves during the month can be attributed to an increase in outstanding RBV notes more than outweighing deterioration in the government's net credit position with the RBV. Statutory Reserve Deposits remained virtually unchanged from the previous month.

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



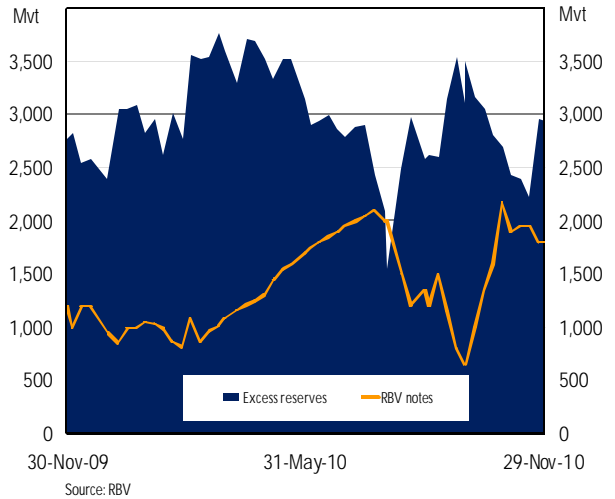
Open Market Operations (OMO) – November 2010

The Bank conducted three Open Market Operations during November 2010, where it issued VT950 million in RBV notes, compared to VT2 billion in October 2010.

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

Total subscription received for these issues was VT2.3 billion, compared to VT4.85 billion 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 November.

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



Total maturity for the month was VT1.35 billion, leaving outstanding notes at VT1.8 billion as of end November, compared to VT1.75 billion at the end of the previous month.

Table 1: Amount Allotted (Millions of Vatu)

Term	Amount Allotted
7 days	300
14 days	150
28 days	150
63 days	250
91 days	100

Chart 8: Short-term Interest rates

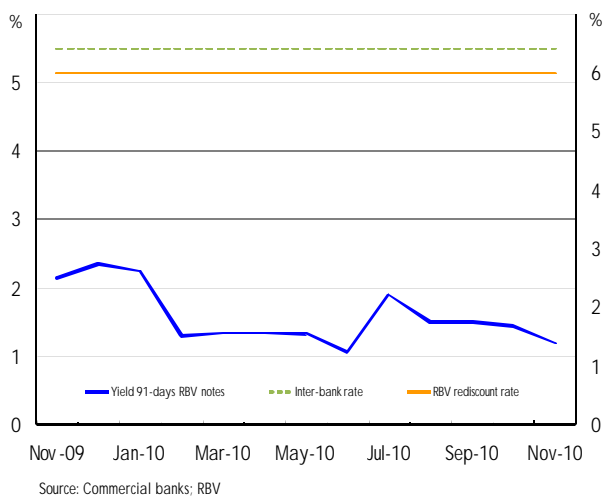


Table 2: Yields on RBV Notes (Percent)

Term	End Nov. 2010	End Oct. 2010
7 days	0.47	0.69
14 days	0.46	0.69
28 days	0.50	0.80
63 days	1.20	1.45
91 days	1.20	1.45

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
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
Oct-10	0.5-5.00	1.50-7.50	1.60-6.50	2.50-9.80
Lending Rates				
	Commercial	Personal	Housing	Agriculture
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
Oct-10	8.95-23.0	5.5-26.5	8.9-13.0	9.99-19.5

As shown in Table 4, commercial banks' upper interest rates for the 2-6 months category declined, while lending rates remained unchanged from the previous month.

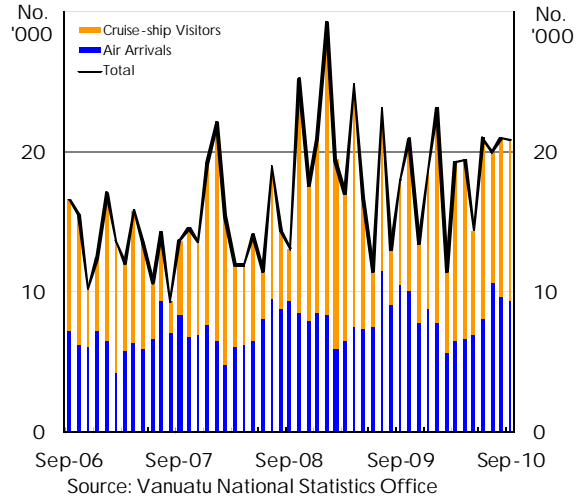
Tourism Update – September 2010

In September 2010, total non-resident visitor arrival (air plus cruise-ship visitors) to Vanuatu remained around the level of the previous month, declined by -0.5 percent in the month to 20,835 visitors, a 16 percent increase over September 2009. Day-visitors (mainly cruise-ship) rose 2 percent to 11,548 visitors attributed to 4 P&O cruise visits to Port Vila in the month with one en-route port calls to outer-island port of Wala Island. These cruise-visits were origin from Brisbane and Sydney ports. Compared to September 2009 (three P&O cruise visits with 7,479 visitors), day-visitors rose by 54 percent.

Air arrival visitor declined 4 percent in the month to 9,287 visitors mainly from New Zealand, Europe, Other Pacific Countries and N. America markets. The main decline was attributed to stop-over visitors, visitors visiting friends and those attending meetings or conferences, in contrast to this Australia and New Caledonia market showed increases over the month. The annualized figure to September 2010 showed a decline of 11 percent

in air arrivals mainly from holiday visitors which could not be offset in increases in stop-overs and visitors visiting friends. This decline was shown for Australia, New Zealand, Europe and N. America, whilst visitors from New Caledonia continued to retain growth over the year.

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



Compared to the same period of 2009, cumulative sum for the period January-September 2010 depicted a 4 percent drop in air visitor arrivals and 1 percent increase in cruise-ship arrivals. Total non-resident visitor arrivals in the same period dropped 1 percent to 170,365 visitors in 2010 compared to 172,507 visitors in the previous year. The average length of stay for visitors rose from 8.7 days in the previous month to 10 days in September.

September Quarter 2010 - Consumer Price Index Update

Consumer Price Index rose 2.3 percent over September quarter of 2009 (annual inflation), showing increases for Port Vila at 2.4 percent and Luganville at 1.5 percent. These increases were contributed mainly to increases in food, alcoholic drinks and tobacco groups, and housing and utilities. Over the previous quarter (quarterly inflation), the CPI rose 0.1 percent with Port Vila recording stable prices (0%) while Luganville recorded a slight increase of 0.7 percent. The components responsible for this increase are transport, alcoholic drinks & tobacco, housing, utilities and household supplies. Other contributing factors are airfares for both domestic and international flights, prices for imported beer, electricity charges, and small hardware tools. There

was however decreases in health, clothing, footwear, food and miscellaneous, but this was insignificant to offset this slight increase. The underlying inflation³ rose 0.2 percent from June quarter but recorded an annual decrease of 1.6 percent from September, 2009.

Exchange Rate Developments – November 2010

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

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Nov-10	95.77	92.26	71.53	125.65
1 month ago	94.21	92.23	71.01	131.28
% Change	1.7	0.0	0.7	-4.3
3 months ago	100.15	82.29	70.62	126.85
% Change	-4.4	12.1	1.3	-0.9
12 months ago	96.55	88.13	69.12	145.01
% Change	-0.8	4.7	3.5	-13.4

Note: (ç) appreciation of vatu

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

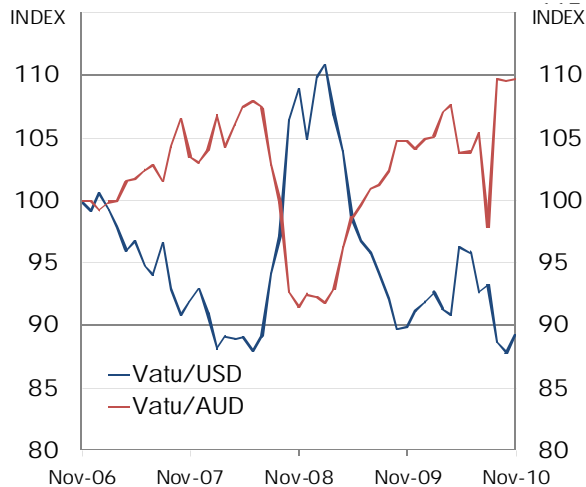
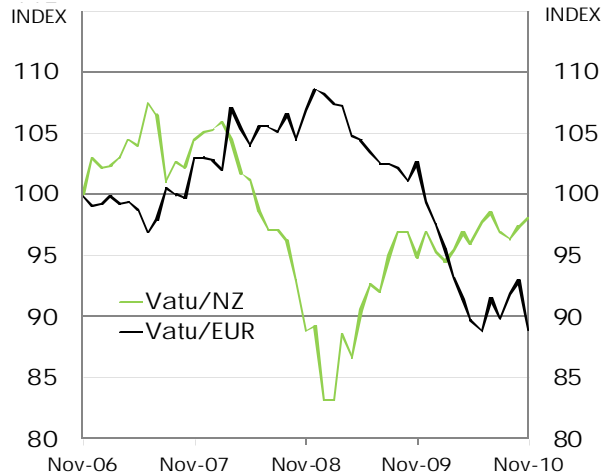


Chart 11: Exchange Rate against NZD and EUR

(Indices; November 2006=100)



During the month, vatu appreciated significantly against the Euro (EUR), but depreciated against the US dollar (USD) and New Zealand dollar (NZD), whilst remaining somewhat constant against the Australian dollar (AUD) for the second consecutive month.

The depreciation of EUR against the vatu during November was primarily driven by ongoing uncertainty surrounding the sustainability of Ireland's fiscal position, increasing the risks of contagion to other euro area member states. The Irish government called for support from the EU and IMF as the estimated cost of guaranteeing lending to commercial banks pushed bond yields higher and increased the perceived risk of a sovereign default. Data released in November showed that GDP growth during the third quarter slowed significantly from the pace shown in the second quarter, whilst unemployment within the area continued to edge up from the already exceptionally high level in September.

The USD's appreciation against the Vatu during the month occurred as a result of settled uncertainty of the outcome of US lower house election that saw the Republicans taking the majority with President Obama agreeing to the Republican demand not to do away with Bush tax cuts. In addition the Fed has planned to purchase US\$600 billion in long term government debt in a second round of quantitative easing to support the economy after core inflation fell to its lowest level on record. However, the monthly appreciation failed to completely undo the USD's depreciation against the Vatu over the previous three months and year. During the month, the Bureau of Economic Analysis revised its estimate of GDP growth during the third quarter upwards,

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.

and exports in September were estimated to have picked up marginally, but October unemployment remained unchanged at 9.6 percent.

The NZD appreciated against the vatu in spite of ratings agency Standard and Poor's downgrading the outlook for sovereign debt from stable to negative. During November, the Reserve Bank of New Zealand announced that monetary conditions had normalised such that it would remove the last remaining temporary liquidity facility created during the global recession. Furthermore, the

currency was supported by rising export prices for key agricultural and forestry products.

The AUD was weighed by data releases indicating that the pace of growth was likely to have slowed during the third quarter, including a slowing of exports despite continued high international prices. Furthermore, unemployment increased slightly in October and the rate of inflation cooled. However, counterbalancing these effects, an interest rate rise early in the month by the Reserve Bank of Australia supported the currency.

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

End of Period	Oct-09	Jul-10	Sep-10	Oct-10	%Change		
					1 Month	3 months	12months
Foreign Assets	15075.8	15364.5	15312.0	15257.1	-0.4	-0.7	1.2
Foreign Exchange 1/	11584.0	14739.2	14686.1	14631.2	-0.4	-0.7	26.3
Reserve Position with IMF	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
SDR Holdings	3057.6	243.1	243.6	243.6	0.0	0.2	-92.0
Claims on Government	619.9	620.7	1417.9	1417.9	0.0	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	2149.2	2058.3	2037.1	2028.0	-0.4	-1.5	-5.6
Total Assets	17844.9	18043.5	18766.9	18703.0	-0.3	3.7	4.8
Reserve Money	8735.9	9230.8	10479.5	10019.8	-4.4	8.5	14.7
Currency outside Banks 3/	3848.6	4178.8	4164.9	4241.0	1.8	1.5	10.2
Commercial Banks Cash	807.1	1159.3	1051.5	925.2	-12.0	-20.2	14.6
Commercial Banks Deposit with RBV	4080.2	3892.7	5263.1	4853.7	-7.8	24.7	19.0
Foreign Liabilities 2/	3366.9	2805.0	2715.0	2714.5	0.0	-3.2	-19.4
Government Deposits, of which	3113.1	3409.6	3890.0	3605.5	-7.3	5.7	15.8
Government contribution to RTP	434.2	382.2	382.2	382.2	0.0	0.0	-12.0
RBV Notes	1493.1	1995.5	647.8	1746.2	169.6	-12.5	17.0
Other Liabilities	1135.9	602.6	1034.5	617.0	-40.4	2.4	-45.7
TOTAL Liabilities	17844.9	18043.5	18766.9	18703.0	-0.3	3.7	4.8

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	Oct-09	Jul-10	Sep-10	Oct-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	807.1	1159.3	1038.3	925.2	-10.9	-20.2	14.6
Deposits with RBV	4080.2	3892.7	5263.1	4853.7	-7.8	24.7	19.0
RBV Notes	1493.1	1995.5	647.8	1746.2	169.6	-12.5	17.0
Foreign Assets, of which	30495.4	24720.2	22778.2	22345.9	-1.9	-9.6	-26.7
Claims on non-residents' banks	27726.7	21755.1	20063.1	19667.1	-2.0	-9.6	-29.1
Claims on Private sector	38574.0	42150.5	42473.3	43073.6	1.4	2.2	11.7
Claims on Government	434.5	686.7	686.7	686.7	0.0	0.0	58.0
Other claims 1/	121.4	109.2	113.2	93.4	-17.5	-14.4	-23.0
Other Assets	3844.8	3704.9	3715.0	3276.3	-11.8	-11.6	-14.8
TOTAL ASSETS	79850.4	78418.9	76715.6	77001.0	0.4	-1.8	-3.6
Demand Deposits, of which	17813.6	16951.5	17030.2	16639.7	-2.3	-1.8	-6.6
Foreign currency	9788.6	8200.0	7584.8	7638.0	0.7	-6.9	-22.0
Savings deposits, of which	4351.8	4899.9	5226.6	5451.4	4.3	11.3	25.3
Foreign currency	215.8	466.5	406.6	395.6	-2.7	-15.2	83.3
Time deposits, of which	33365.3	28656.6	28962.0	29078.4	0.4	1.5	-12.8
Foreign Currency	16400.6	10709.8	10889.8	11012.9	1.1	2.8	-32.9
Foreign Liabilities, of which	8114.2	12448.7	12210.7	12194.5	-0.1	-2.0	50.3
Non residents Banks	2875.9	3119.6	3168.3	3114.2	-1.7	-0.2	8.3
Government Deposits	836.3	851.2	622.5	590.3	-5.2	-30.7	-29.4
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15369.1	14611.0	12663.6	13046.7	3.0	-10.7	-15.1
TOTAL LIABILITIES	79850.4	78418.9	76715.6	77001.0	0.4	-1.8	-3.6

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	Oct-09	Jul-10	Sep-10	Oct-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	34,090.0	24,831.0	23,164.5	22,694.0	-2.0	-8.6	-33.4
Monetary Authorities (Net)	11,708.9	12,559.5	12,596.9	12,542.5	-0.4	-0.1	7.1
Commercial Banks (Net)	22,381.1	12,271.5	10,567.5	10,151.4	-3.9	-17.3	-54.6
2. Net Domestic Assets	25,289.3	29,855.7	32,219.3	33,080.9	2.7	10.8	30.8
(a) Domestic Credit	36,478.3	40,147.8	41,010.1	41,871.7	2.1	4.3	14.8
(i) Net claims on government	(2,895.0)	(2,953.4)	(2,407.9)	(2,091.2)	13.2	29.2	27.8
Monetary Authorities	(2,493.2)	(2,788.8)	(2,472.1)	(2,187.6)	11.5	21.6	12.3
Commercial Banks	(401.8)	(164.6)	64.2	96.4	50.2	158.6	124.0
(ii) Claims on Non financial Public enterprises (NFPE)	108.6	98.5	95.9	76.4	-20.4	-22.5	-29.7
(iii) Claims on Private Sector (1)	39,251.9	42,992.1	43,304.8	43,869.5	1.3	2.0	11.8
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	12.7	10.6	17.3	17.1	-1.2	60.4	33.9
(b) Other items (net)	(11,189.0)	(10,292.1)	(8,790.8)	(8,790.8)	0.0	-14.6	-21.4
3. Total Assets= Total Money Supply (M2)	59,379.4	54,686.7	55,383.8	55,410.5	0.0	1.3	-6.7
(a) Money (M1)	21,662.3	21,130.3	21,195.2	20,880.7	-1.5	-1.2	-3.6
(i) Currency outside Banks	3,848.6	4,178.8	4,164.9	4,241.0	1.8	1.5	10.2
(ii) Demand deposits	17,813.6	16,951.5	17,030.2	16,639.7	-2.3	-1.8	-6.6
(b) Quasi-money	37,717.1	33,556.5	34,188.6	34,529.8	1.0	2.9	-8.5
(i) Saving Deposits	4,351.8	4,899.9	5,226.6	5,451.4	4.3	11.3	25.3
(ii) Time Deposits	33,365.3	28,656.6	28,962.0	29,078.4	0.4	1.5	-12.8

1) Include RBV staff loans and credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Oct-09	Jul-10	Sep-10	Oct-10
1. Net Foreign Assets	(787.8)	(2,544.2)	(1,091.3)	(470.5)
Monetary authorities	(158.3)	(135.2)	95.8	(54.4)
Commercial Banks	(629.5)	(2,408.9)	(1,187.1)	(416.1)
2. Domestic Money creation	533.8	1,486.9	2,019.3	861.7
(a) Domestic credit	525.5	906.7	998.0	861.7
Net Claims on Government	87.3	257.9	421.7	316.7
Monetary Authorities (net)	15.5	(239.9)	265.5	284.5
Commercial Banks (net)	71.8	497.8	156.3	32.2
Claims on non financial public enterprises	(0.5)	(0.5)	(0.8)	(19.6)
Claims on Private sector	438.0	654.0	571.9	564.7
(b) Other Domestic factor	8.3	580.2	1,021.3	0.0
3. Money Supply creation (M4)	(254.0)	(1,057.6)	928.0	26.8
Money (M1)	496.2	411.9	205.2	(314.4)
Quasi-money	(750.2)	(1,469.5)	722.7	341.2