



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC NEWS

SUMMARY

The news items covered in this publication do not necessarily imply any judgment by the Bank on the accuracy of the information or any endorsement or acceptance of such news

Issue 161

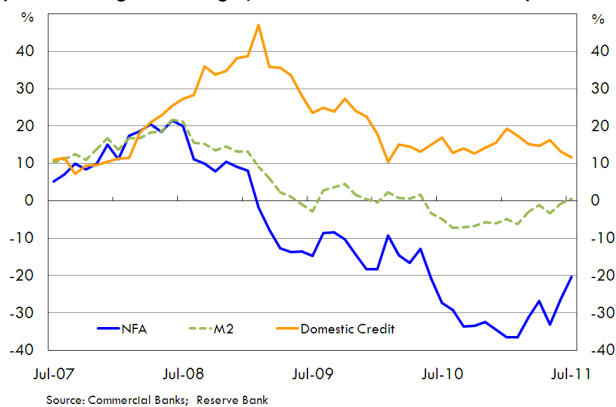
August 2011

MONETARY SURVEY

Broad money supply (M2) decreased slightly by 0.6 percent in July. This resulted from a 1.8 percent decrease in the banking system's net foreign assets (NFA) which outweighed a 0.9 percent increase in domestic credit. The growth rate of M2 for the year ending July 2011 was positive at 0.5 percent.

Chart 1 below shows that the annual growth rate of M2 was determined by the trends in NFA and domestic credit.

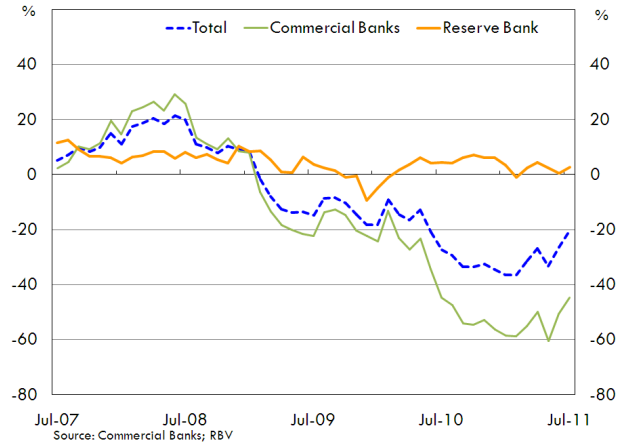
Chart 1: Total Money Supply
(Percentage Change; Year-on-Year Growth)



Determinants of Money Supply

In July, the decrease in the banking system's NFA resulted from a 6.6 percent decrease in the commercial banks' NFA which outweighed a 0.9 percent increase in the Reserve Bank NFA. The year-on-year growth rate of aggregate NFA remained negative at -20.3 percent.

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



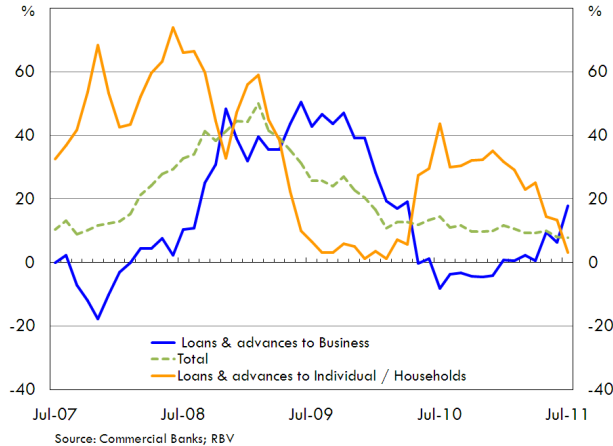
The increase in the NFA of the Reserve Bank resulted from an increase in its foreign assets by 0.7 percent combined with a slight decrease in its foreign liabilities. The increase in foreign assets reflected net inflows of foreign exchange during the month. Projected months of import cover in July stood at 6.1, well above the bank's minimum comfortable threshold. The year-on-year records showed an increase of 3.6 percent in the Reserve Bank's NFA position.

The decrease in the commercial banks' NFA in July was driven by a 6.6 percent decrease in their foreign assets outweighing a 6.5 percent decrease in foreign liabilities. Over the year to July 2011, the growth in commercial banks' NFA remained negative at -44.8 percent.

Domestic credit increased by 0.9 percent in July, following a 1.7 percent (revised) decrease the previous month. Growth over the year to July 2011 remained positive at 11.6 percent. The increase in July was attributed to claims on private sector. The banking system's claims on government, claims on non financial public enterprises and claims on municipalities showed decreases over the

month. The banking system claims on the private sector increased by 1.3 percent, up from a 0.1 percent increase recorded during the previous month.

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



Source: Commercial Banks; RBV

Table 1: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)		
	Jul-10	Jun-11	Jul-11
Agriculture	813.5	660.9	669.4
Fisheries	54.6	44.6	44.0
Mining & Quarring	92.0	133.0	135.2
Manufacturing	1587.0	1709.9	1828.7
Distribution	3277.7	3328.3	3321.8
Tourism	2880.2	3975.7	3974.8
Entertainment & Catering	139.0	329.4	334.5
Transport	1637.5	1563.8	1557.8
Public Utilities	38.3	36.3	36.2
Construction	5305.8	7044.9	7076.2
a) Central Government	24.5	1.1	0.0
b) Public Corporation	24.4	17.6	18.7
Financial Institutions	189.3	616.6	621.7
Professional & Other Services	2004.7	2945.5	2889.9
Housing & Land Purchases	10461.2	14687.7	14552.8
Other Personal	6894.0	7850.3	8174.5
Miscellaneous	7737.6	932.0	1233.4
TOTAL	43,161.2	45,877.5	46,469.5
of which Vatu:	35401.4	36471.9	37016.8

NB: Loans to Central Gvt does not include government Bonds

During the month, loans to individuals & households and loans to businesses increased by 1.8 percent and 0.7 percent, respectively. Over the year to July, both loans to businesses and loans to individual & households recorded increases of 17.9 percent and 3.1 percent respectively.

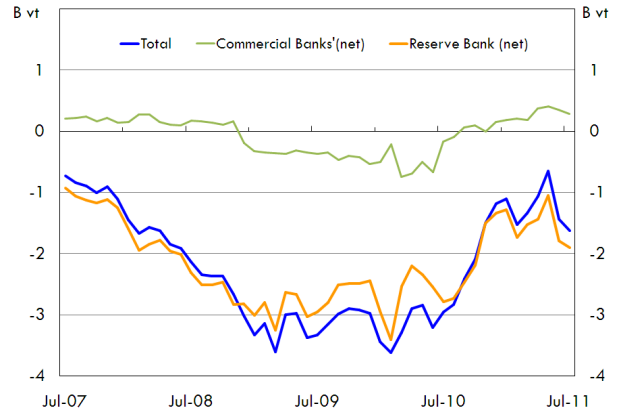
Loans to municipalities decreased by 19.7 percent in July 2011, resulting in year-ended growth of -50.0 percent.

The banking system's net claims on the Government decreased again in July. The Reserve Bank's net claims on the Government decreased by VT117.3 million over the month, resulting from an increase of 3.5 percent in Government deposits. On a year-on-year basis, the Reserve Bank's net claims

on the Government showed an increase of VT884.1 million.

The commercial banks' net claims on the Government decreased by VT71.6 million, resulting entirely from an increase in Government deposits. Over the year to July, the aggregate banking system's net claims on the Government increased by VT1.3 billion (Chart 4).

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

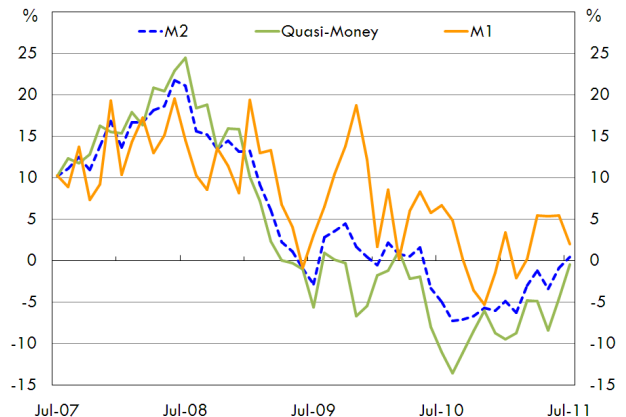


Source: Commercial Banks; RBV

Measures of Money Supply

The monthly decrease of M2 stemmed from decreases in narrow money (M1) and quasi-money by 1.3 percent and 0.1 percent, respectively. Over the year ending July 2011, a 0.5 percent increase in M2 was driven by narrow money, which increased by 2.0 percent, whilst M1 noted a decrease of 0.5 percent (Chart 5).

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



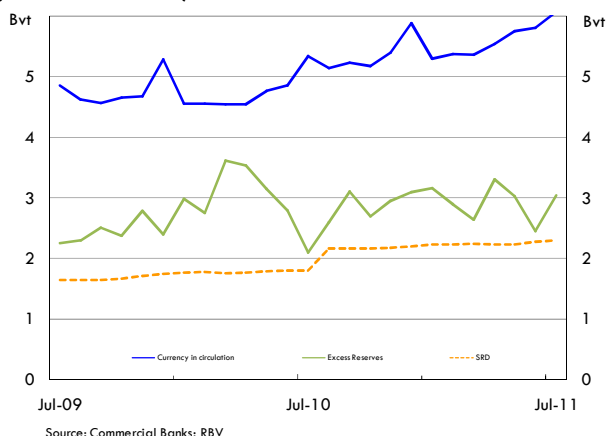
Source: Commercial Banks, RBV

The month-on-month decrease in M1 was driven by a 2.6 percent decrease in demand deposits, which outweighed a 3.5 percent increase in currency outside banks. The increase in currency outside banks is consistent with increased demand for cash during Independence celebrations. The decrease in demand deposits stemmed from decreases of 4.6 percent and 0.7 percent in its foreign currency and local currency components respectively.

Reserve Money

Reserve money¹ increased by 8.2 percent in July, and by 23.4 percent over the year to July. The monthly increase was due to increases of 4.6 percent and 23.7 percent in currency in circulation and excess reserves, respectively.

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



Source: Commercial Banks; RBV

Open Market Operations (OMO) – August 2011

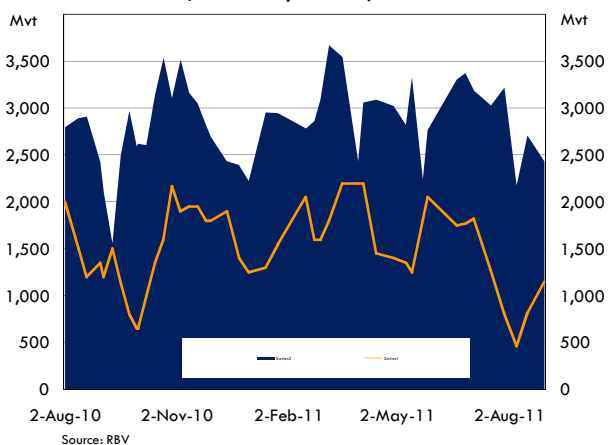
The Bank conducted two Open Market Operations in August 2011 where it issued VT1.8 billion in RBV Notes compared to VT1.5 billion over the previous month.

The total tender for those two issues was over-subscribed by VT600 million at VT2.4 billion compared to an under-subscription of VT500 million the previous month. The over-subscription in the two issues in August reflected the limited amount of Notes issued, boosting excess reserves to over VT3 billion at the end of the month.

Chart 7: Commercial Banks Liquidity

¹ Reserve money comprises currency in circulation, Statutory Reserve Deposits (SRD) and Excess Reserves.

(Millions of Vatu; Weekly Data)



Total maturity for the month was VT1.33 billion, leaving outstanding notes at VT1.15 million at the end of August compared to VT810 million at the end of July.

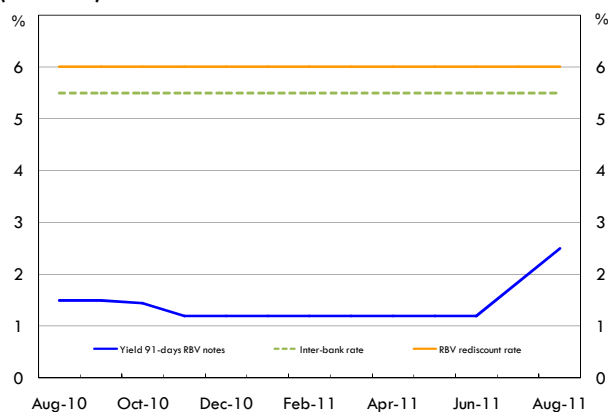
Table 2: Amount Allotted (Millions of Vatu)

Term	Amount Allotted
7 days	390
14 days	540
28 days	360
63 days	330
91 days	180

Table 3: Yields on RBV Notes (Percent)

Term	End August 2011	End Jun. 2011
7 days	1.30	1.13
14 days	1.77	1.20
28 days	1.93	1.20
63 days	2.45	-
91 days	2.50	-

Chart 8: Short-term Interest rates
(Percent)



Source: Commercial banks; RBV

The inter-bank rate remained at 5.5 percent.

Interest Rates

Table 4: Interest Rates (Percent)

Deposit Interest Rates				
	Savings	1-Month	2-6 Months	Above 6 Months
May-11	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Jun-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
July-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
Lending Rates				
	Commercial	Personal	Housing	Agriculture
May-11	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
June-11	8.95-23.00	8.95-19.50	8.90-13.00	9.99-19.50
July-11	8.95-23.00	5.50-26.50	8.95-11.99	9.99-19.50

Tourism Update- July 2011

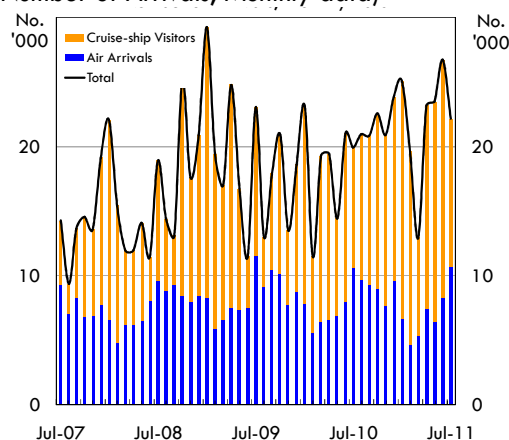
In July 2011, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu declined 17 percent in the month, but rose 11 percent over the year to 22,140 visitors. An increase in the month was shown for air arrivals (both Port Vila and Luganville) whilst cruise-ship arrivals fell. Both showed an increase over the year. Day visitors, which are mainly cruise visitors, declined 38 percent in the month to 11,411 visitors (down from 18,363 visitors in June) with six P&O cruise visits to Port Vila (made by Pacific Dawn and Pacific Jewel). The visits included en-route port calls to outer-island ports of Mystery Is, Wala Is and Champagne Bay, and mainly originated from Brisbane and Sydney ports. Compared to July 2010 (estimated five P&O cruise visits with 9,334 visitors), day visitor arrivals to Vanuatu rose 22 percent.

Air visitor arrivals rose 29 percent in the month to 10,729 visitors reflecting another seasonally high month for holiday visitors to the region. This was led by increase in visitor arrivals from Australia, New Zealand, New Caledonia, Other Pacific Countries, Europe, Other Countries and Japan. A decline was shown for visitors from North America. There were more visitors arriving for holiday and visiting friends and families, but a drop in visitors arriving for meetings/conferences. Over the year to July 2011, air arrivals rose 1 percent mainly led by New Zealand and Japan, while declines were shown for Europe, Australia, North America, New Caledonia, Other Pacific Countries and Other Countries. The increase was mainly due to more

visitors arriving for holidays and stop-overs. Seasonally adjusted, air visitor arrivals for July 2011 declined 3 percent in the month. The average length of stay for air visitors declined to 9.7 days, from 10.6 days in the previous month and 11.4 days in July 2010.

Compared to the same period of 2010, the cumulative sum of the period January-July 2011 depicted 5 percent decline in air visitor arrivals and 35 percent increase in cruise-ship visitor arrivals. Overall, total non-resident visitor arrivals into the country rose in the period by 19 percent to 153,005 visitors compared to 128,594 visitors recorded in the same period of the previous year, mainly due to the increase in cruise-ship visitors.

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



Source: Vanuatu National Statistics Office

Exchange Rate Developments

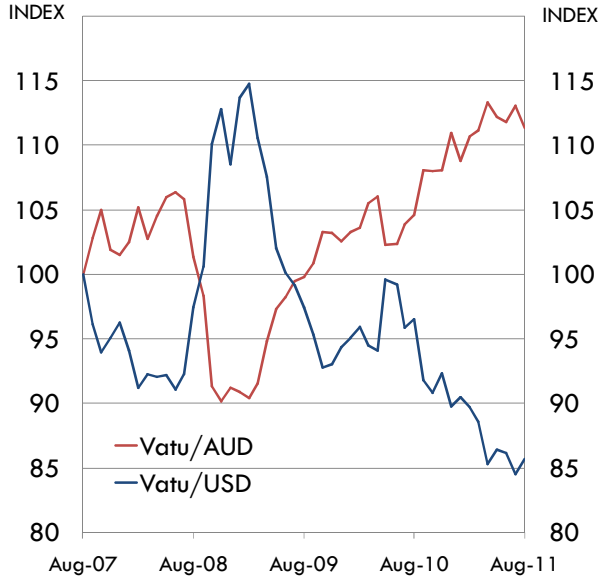
The exchange rate developments of the vatu vis-à-vis its major trading currencies for the month of August are shown in the following table and charts.

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Aug-11	88.93	95.06	75.91	128.49
1 month ago	87.72	96.54	76.41	125.73
%▲	1.4	-1.5	-0.7	2.2
3 months ago	89.64	95.80	73.16	128.02
%▲	-0.8	-0.8	3.8	0.4
12 months ago	100.15	89.29	70.62	126.85
%▲	-11.2	6.5	7.5	1.3

Note: (-) appreciation of vatu

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

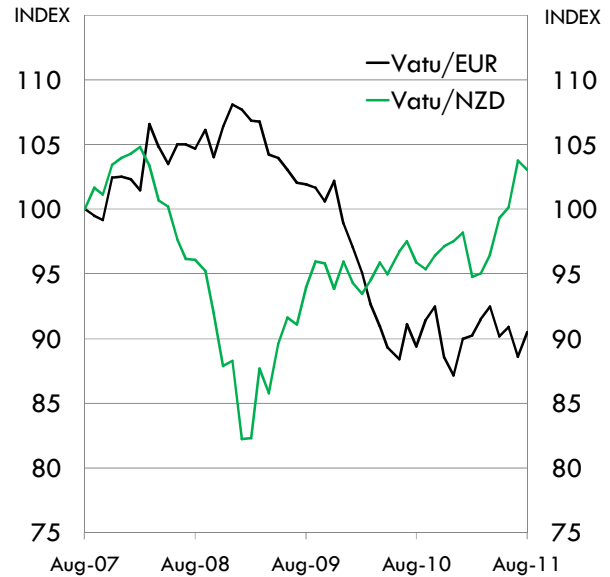
Chart 10: Exchange Rate against USD and AUD
(Indices; August 2007=100)



During August, US first quarter GDP growth figures were revised downwards significantly and a major ratings agency downgraded its sovereign debt from the maximum AAA rating. Although no major macroeconomic policy changes were implemented during the month, a speech by Federal Reserve Chairman Ben Bernanke indicated that the case for further monetary support was under review, and the government was expected to launch a jobs stimulus plan in early September.

The AUD experienced downward pressure following negative economic news from the US and intensifying uncertainty about a number of European banks' access to funding, dampening investors' appetite for higher-return assets such as the AUD. However, the depreciation of the currency was limited by comments from Reserve Bank of Australia Governor Glenn Stevens that gave little indication that the central bank would act to ease monetary conditions in the coming months despite continued consumer caution. Data released during the month showed a slight increase in the unemployment rate in July.

Chart 11: Exchange Rate against NZD and EUR
(Indices; August 2007=100)



As with the AUD, the NZD was affected by a decline in investor risk appetite in the context of a slowing in the US economy and persistent uncertainty in the euro area, weighing on demand for the currency. Figures released in August showed a decline in business confidence in July, the first such decline recorded in 5 months.

The appreciation of the EUR against the vatu during the month occurred despite a failure to conclusively resolve investors' sovereign debt uncertainty. In fact, the EU Commission president publicly acknowledged the spread of the sovereign debt crisis beyond the euro periphery during the month. The EUR was supported by European Central Bank intervention in sovereign debt markets to counter escalating borrowing costs, although this was described as only a temporary measure. During the month, Germany, the area's largest economy, showed resistance to the potential issuing of common 'eurobonds' for all member states.

MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Jul-10	Apr-11	Jun-11	Jul-11	%Change		
					1 Month	3 months	12months
Foreign Assets	15364.5	15111.2	15369.3	15482.0	0.7	2.5	0.8
Foreign Exchange 1/	14739.2	14534.4	14795.7	14908.4	0.8	2.6	1.1
Reserve Position with IMF	382.2	357.0	356.2	356.2	0.0	-0.2	-6.8
SDR Holdings	243.1	219.9	217.4	217.4	0.0	-1.1	-10.6
Claims on Government	620.7	1518.2	1517.9	1517.9	0.0	0.0	144.5
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	2058.3	2071.1	2029.4	2002.0	-1.4	-3.3	-2.7
Total Assets	18043.5	18700.5	18916.7	19001.9	0.5	1.6	5.3
Reserve Money	9230.7	11069.5	10520.0 r	11383.4	8.2	2.8	23.3
Currency outside Banks 3/	4178.7	4410.6	4557.5 r	4718.1	3.5	7.0	12.9
Commercial Banks Cash	1159.3	1123.4	1238.2	1342.9	8.5	19.5	15.8
Commercial Banks Deposit with RBV	3892.7	5535.6	4724.3 r	5322.4	12.7	-3.9	36.7
Foreign Liabilities 2/	2805.0	2474.6	2467.4	2467.4	0.0	-0.3	-12.0
Government Deposits, of which	3409.6	2951.0	3305.4 r	3422.7	3.5	16.0	0.4
Government contribution to RTP	382.2	357.0	356.2 r	351.2	-1.4	-1.6	-8.1
RBV Notes	1995.5	1396.7	1816.8 r	808.2	-55.5	-42.1	-59.5
Other Liabilities	602.6	799.2	795.5 r	814.2	2.4	1.9	35.1
TOTAL Liabilities	18043.5	18700.5	18916.7	19001.9	0.5	1.6	5.3

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	Jul-10	Apr-11	Jun-11	Jul-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	1159.3	1123.4	1238.2	1342.9	8.5	19.5	15.8
Deposits with RBV	3892.7	5535.6	4724.3	5322.4	12.7	-3.9	36.7
RBV Notes	1995.5	1396.7	1816.8	808.2	-55.5	-42.1	-59.5
Foreign Assets, of which	24720.2	18347.8	18185.1	16992.5	-6.6	-7.4	-31.3
Claims on non-residents' banks	2747.7	2489.8	2503.3	2439.8	-2.5	-2.0	-11.2
Claims on Private sector	42150.5	45206.3	45639.7	46242.4	1.3	2.3	9.7
Claims on Government	686.7	986.3	986.3	986.3	0.0	0.0	43.6
Other claims 1/	42161.1	100.2	95.9	93.9	-2.1	-6.3	-99.8
Other Assets	3704.9	3510.7	3510.7	3510.7	0.0	0.0	-5.2
TOTAL ASSETS	78418.9	76206.9	76202.7	75267.4	-1.2	-1.2	-4.0
Demand Deposits, of which	16951.5	16974.2	17284.1	16830.3	-2.6	-0.8	-0.7
Foreign currency	8200.0	7999.9	8506.6	8111.7	-4.6	1.4	-1.1
Savings deposits, of which	4899.9	5830.0	5928.1	5737.3	-3.2	-1.6	17.1
Foreign currency	466.5	337.4	369.5	370.2	0.2	9.7	-20.6
Time deposits, of which	28656.6	28988.8	27499.3	27666.7	0.6	-4.6	-3.5
Foreign Currency	10709.8	9995.5	8509.5	8556.8	0.6	-14.4	-20.1
Foreign Liabilities, of which	12448.7	10194.4	10933.8	10219.3	-6.5	0.2	-17.9
Non residents Banks	3119.6	1685.9	1852.4	1870.8	1.0	11.0	-40.0
Government Deposits	851.2	617.6	634.9	706.6	11.3	14.4	-17.0
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' fund	14611.0	13601.8	13922.4	14107.1	1.3	3.7	-3.4
TOTAL LIABILITIES	78418.9	76206.9	76202.7	75267.4	-1.2	-1.2	-4.0

1/ Includes: Claims on other Financial Institutions and Interbank Claims, Claims on Municipalities and Claims on Public Enterprises

Nb: Figures highlighted have been revised

TABLE A3 : MONETARY SURVEY: A CONSOLIDATED STATEMENTS OF ACCOUNTS OF THE MONETARY INSTITUTIONS

END OF PERIOD	Jul-10	Apr-11	Jun-11	Jul-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	24,831.0	20,790.0	20,153.2	19,787.8	-1.8	-4.8	-20.3
Monetary Authorities (Net)	12,559.5	12,636.6	12,901.9	13,014.6	0.9	3.0	3.6
Commercial Banks (Net)	12,271.5	8,153.4	7,251.3	6,773.2	-6.6	-16.9	-44.8
2. Net Domestic Assets	29,855.7	35,413.7	35,115.7	35,164.6	0.1	-0.7	17.8
(a) Domestic Credit	40,147.9	44,350.4	44,410.6	44,821.2	0.9	1.1	11.6
(i) Net claims on government	(2,953.4)	(1,064.0)	(1,436.1)	(1,625.0)	13.2	52.7	-45.0
Monetary Authorities	(2,788.8)	(1,432.7)	(1,787.5)	(1,904.8)	6.6	32.9	-31.7
Commercial Banks	(164.6)	368.7	351.4	279.8	-20.4	-24.1	-270.0
(ii) Claims on Non financial Public enterprises (NFPE)	98.5	92.7	89.3	88.6	-0.8	-4.5	-10.1
(iii) Claims on Private Sector (1)	42,992.1	45,314.2	45,750.7	46,352.3	1.3	2.3	7.8
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	10.6	7.5	6.6	5.3	-19.7	-28.8	-50.0
(b) Other items (net)	(10,292.2)	(8,936.7)	(9,294.8)	(9,656.6)	3.9	8.1	-6.2
3. Total Assets= Total Money Supply (M2)	54,686.6	56,203.7	55,269.0	54,952.4	-0.6	-2.2	0.5
(a) Money (M1)	21,130.2	21,384.8	21,841.5	21,548.4	-1.3	0.8	2.0
(i) Currency outside Banks	4,178.7	4,410.6	4,557.5	4,718.1	3.5	7.0	12.9
(ii) Demand deposits	16,951.5	16,974.2	17,284.1	16,830.3	-2.6	-0.8	-0.7
(b) Quasi-money	33,556.5	34,818.9	33,427.4	33,404.0	-0.1	-4.1	-0.5
(i) Saving Deposits	4,899.9	5,830.0	5,928.1	5,737.3	-3.2	-1.6	17.1
(ii) Time Deposits	28,656.6	28,988.8	27,499.3	27,666.7	0.6	-4.6	-3.5

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Jul-10	Apr-11	Jun-11	Jul-11
1. Net Foreign Assets	(2,544.2)	188.0	895.5	(365.4)
Monetary authorities	(135.2)	(25.8)	141.0	112.7
Commercial Banks	(2,408.9)	213.8	754.6	(478.1)
2. Domestic Money creation	1,486.8	162.5	(875.8)	48.9
(a) Domestic credit	906.7	757.0	(757.9)	410.6
Net Claims on Government	257.9	270.0	(786.7)	(188.9)
Monetary Authorities (net)	(239.9)	88.5	(734.0)	(117.3)
Commercial Banks (net)	497.8	181.4	(52.7)	(71.6)
Claims on non financial public enterprises	(0.5)	(0.5)	(1.7)	(0.8)
Claims on Private sector	654.0	488.2	29.4	601.6
(b) Other Domestic factor	580.1	(594.6)	(117.9)	(361.8)
3. Money Supply creation (M4)	(1,057.7)	350.4	19.8	(316.5)
Money (M1)	411.9	494.3	(186.8)	(293.1)
Quasi-money	(1,469.5)	(143.9)	206.5	(23.4)

TABLE: 5 ASSETS AND LIABILITIES OF CREDIT CORPORATION AND VANUATU AGRICULTURE BANK

End of Period	Dec-10	May-11	Jun-11	Jul-11
Reserves	30.4	0.0	88.7	86.5
Domestic currency	30.38	0.00	88.74	86.51
Deposits with RBV	0.00	0.00	0.00	0.00
RBV Notes	0.00	0.00	0.00	0.00
Foreign Assets 1/	0.00	0.00	0.00	0.00
Claims on non-resident banks; of which	0.00	0.00	0.00	0.00
Vanuatu's offshore financial Inst. 2/				
Claims on non-resident nonbanks	0.00	0.00	0.00	0.00
Claims on Government	0.00	0.00	0.00	0.00
Claims on Municipalities	0.00	0.00	0.00	0.00
Claims on public enterprises	0.00	0.00	0.00	0.00
Claims on private sector	1,061.10	833.57	1,153.00	1,134.59
Claims on other finan. Inst. 2/				
Inter-bank claims	37.92	9.55	42.59	63.50
Fixed Assets	18.29	4.50	16.38	16.05
Debit Items for collection	0.00	0.00	0.00	0.00
Unclassified assets	7.66	1.106	6.986	13.050
TOTAL	1,155.3	848.72	1,307.70	1,313.70
Demand Deposits	0.0	0.0	0.0	0.0
Local currency	0.00	0.00	0.00	0.00
Foreign currency	0.00	0.00	0.00	0.00
Savings deposits	0.00	0.00	0.00	0.00
Local currency	0.00	0.00	0.00	0.00
Foreign currency	0.00	0.00	0.00	0.00
Time deposits	186.9	-	-	-
Local currency	186.92	0.00	0.00	0.00
Foreign currency				
Foreign Liabilities	0.5	0.790	1.303	1.360
Non residents banks & Financial Institutio	0.51	0.790	1.303	1.360
Non residents nonbanks				
Government Deposits				
Credit from monetary authorities				
Capital and fixed reserves	768.68	368.180	868.680	868.368
Profit and loss accounts	39.28	40.743	41.185	48.792
Reserves including Provisions	59.65	62.645	92.009	93.291
Inter-bank liabilities				
Unclassified Liabilities	287.23	376.360	304.519	301.890
TOTAL	1342.3	848.72	1307.70	1313.70
Other items (net)	279.6	375.3	297.5	288.8
[Unclassified Liabilities [minus Unclassified Assets]				