



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC NEWS

### SUMMARY

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Issue 157

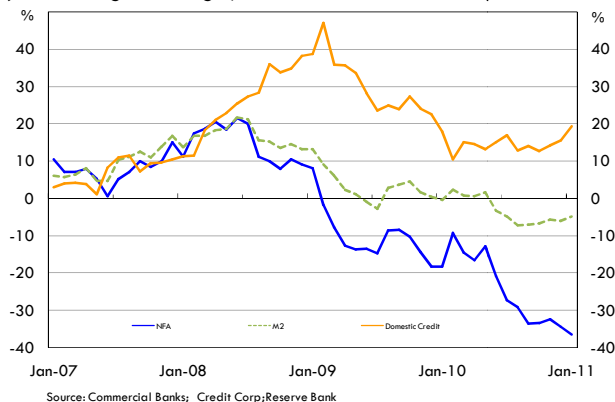
February 2011

### MONETARY SURVEY

Broad money supply (M2) decreased by 1.7 in January, after remaining virtually unchanged during the two previous months. The decline stemmed mainly from a 4.9 percent decrease in the banking system's net foreign assets (NFA), which outweighed a 0.1 percent increase in domestic credit. The annual growth rate of M2 for the year ending December 2010 remained negative at -4.8 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)

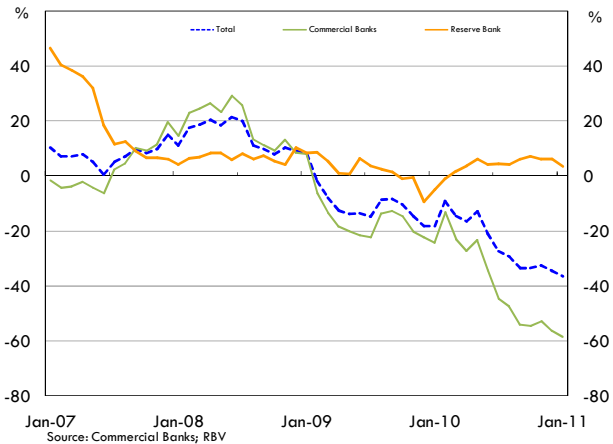


### Determinants of Money Supply

In January, the banking system's total NFA continued to its downward trend, driven by decreases in the NFA of both commercial banks and the Reserve Bank by 9.4 percent and 1.2 percent, respectively. The year-on year growth rate of NFA remained negative at -36.5 percent.

**Chart 2: Net Foreign Assets**

(Percentage Change; Year-on-Year Growth)



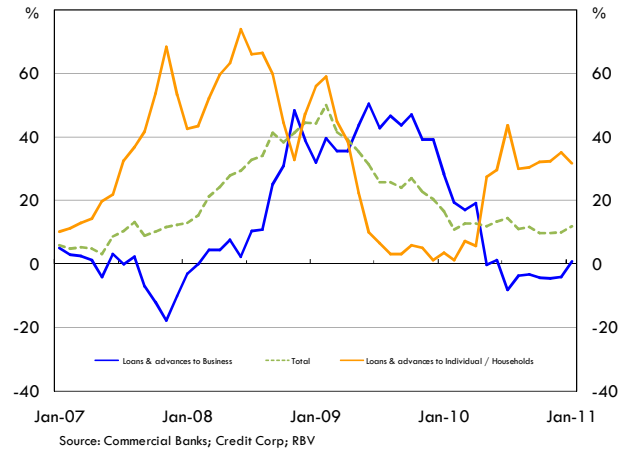
The decrease in the NFA of the Reserve Bank stemmed mainly from a 1.1 percent decline in its foreign assets, with its foreign liabilities recording a slight decrease of 0.2 percent. The decline in foreign assets reflected net outflows of foreign exchange during the month. Projected months of import cover stood at 5.9, above the bank's minimum comfortable threshold. The year-on-year records showed an increase of 2.1 percent in the Reserve Bank's NFA position, down from a 6.2 percent increase over the year to December 2010.

Commercial banks' NFA decreased during January as a result of their foreign asset holdings contracting by 4.1 percent, whilst their foreign liabilities remained virtually unchanged during the month. Over the year to December 2010, the growth in commercial banks' NFA remained negative at -58.5 percent.

Domestic credit grew by 0.1 percent in January, down from a 1.9 percent increase recorded in December. However, the annual growth rate increased to 19.3 percent from 15.5 percent recorded over the year to December 2010. Growth during January was attributed primarily to an increase in the banking system's net claims on the government, followed by claim to non-financial public enterprises. Banking system claims on the

private sector remained virtually unchanged during January, but recorded an increase of 11.8 percent over the year to January.

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

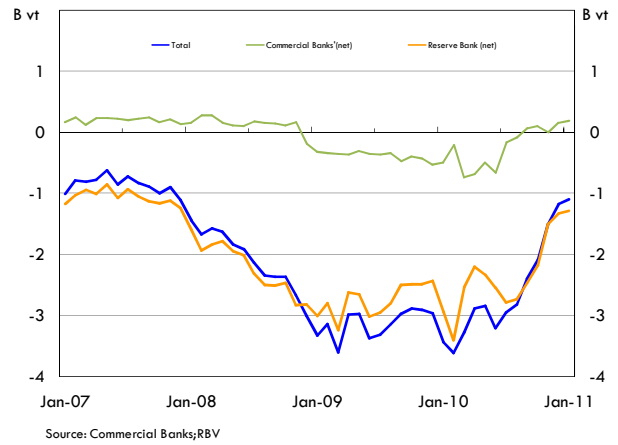


Lending to individuals & households decreased by 0.4 percent, which counterbalanced the 0.2 percent increase in loans to businesses, and resulted in overall credit to private sector to remaining virtually unchanged over the month. Over the year, loans to business recorded a 0.7 percent increase and loans to individuals & households recorded a 31.6 increase.

After a 7.0 percent decrease in December 2010, loans to municipalities declined by a further 58.1 percent in January, pushing the year-ended growth to -55.6 percent.

The government’s net credit position vis-à-vis the banking system continued to deteriorate in January 2011. The Reserve Bank’s net claims on the government increased by 4.0 percent over the month, driven by a continued decline in deposits, bringing the year-on-year increase to 56.4 percent. During the month, the government continued to deplete its deposits at commercial banks, resulting in an increase in the commercial banks’ net claims on the government. Over the year to December, the government’s net credit position with the banking system as a whole deteriorated by 68.0 percent (Chart 4).

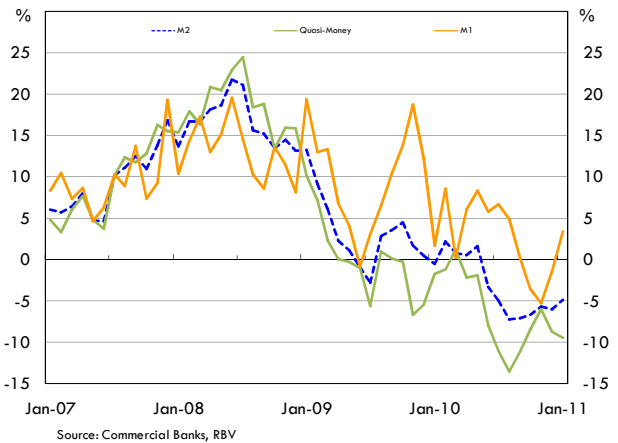
**Chart 4: Net Claims on Government**  
(Billions of Vatu; Monthly Data)



**Measures of Money Supply**

The decrease in M2 stemmed from decreases in both M1 by 1.9 percent and quasi-money by 1.5 percent. Over the year ending January 2011, a 4.8 decline in M2 was driven mainly by quasi-money, which fell by 9.5 percent, whilst M1 declined by 3.4 percent (Chart 5).

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



The month-on-month decrease in M1 was driven by a 0.4 percent decrease in demand deposits, and a 7.8 percent decrease in currency outside banks. The decrease in demand deposits stemmed mainly from a 2.8 percent decrease in local currency deposits, which outweighed a 2.4 increase the in foreign currency component.

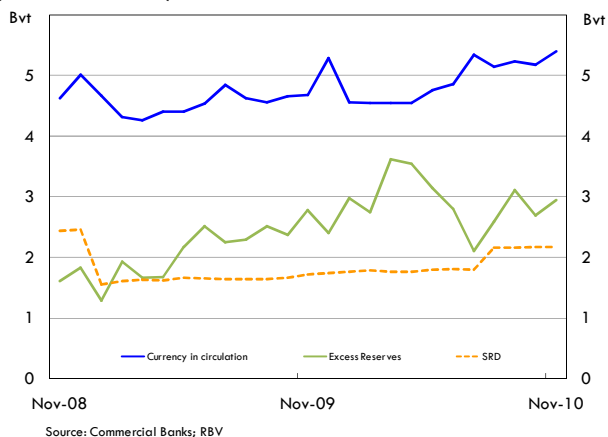
**Reserve Money**

Reserve money<sup>1</sup> decreased by 4.3 percent in January, but increased by 13.4 percent on a year-

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

on-year basis. The monthly decrease was due to a 5.4 percent decrease in commercial banks' deposits with the RBV and a 7.2 increase in their cash holdings.

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

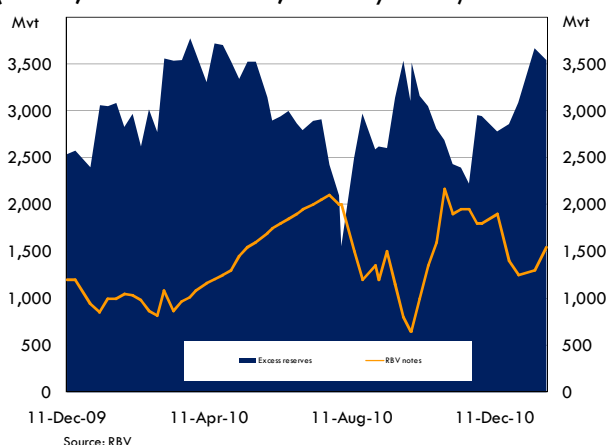


**Open Market Operations (OMO) – February 2011**

The Bank conducted three Open Market Operations during February 2011, where it issued VT1.35 billion in RBV notes compared to VT1.5 billion in the previous month.

Total subscription received for these issues was recorded at VT2.4 billion, compared to VT2.85 billion for the previous month. This high level of subscription compared to the total offer reflects the high level of liquidity in the system during February 2011.

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



Total maturity for the month was VT1.5 million leaving outstanding notes at VT1.75 billion at the

end of January compared to VT950 million at the end of the previous month.

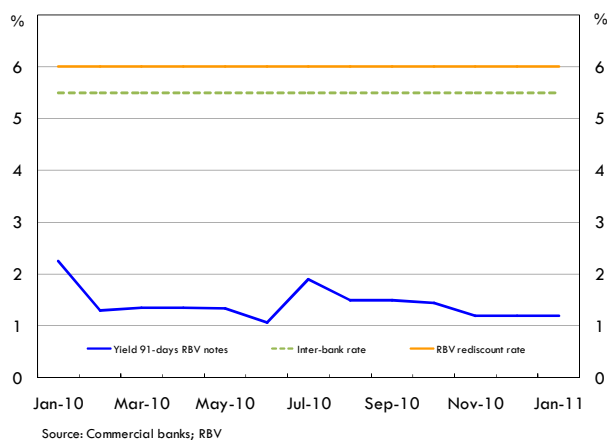
**Table 1: Amount Allotted (Millions of Vatu)**

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

**Table 2: Yields on RBV Notes (Percent)**

Term	End Feb. 2010	End Jan 2010
7 days	0.80	0.80
14 days	0.80	0.80
28 days	0.80	0.80
63 days	1.20	1.20
91 days	1.20	1.20

**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
Nov-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Dec-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Jan-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Nov-10	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
Dec-10	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
Jan-11	8.95-23.00	8.95-19.50	8.90-13.00	9.99-19.50

As shown in Table 3, commercial banks' deposit interest rates for time deposits declined, whilst the

range of interest rates personal lending contracted (the lower end of the range increased whilst the upper end decreased). Commercial, housing, and agriculture lending rates remained unchanged.

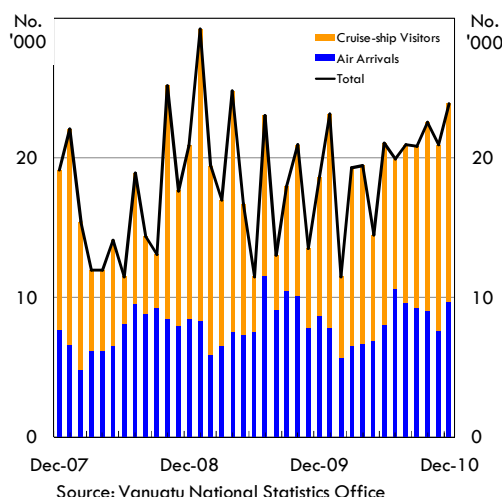
**Tourism Update –January 2011**

In January 2011, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu dropped 26 percent and over the year to 17,624 visitors, compared to 23,839 visitors in the previous month. Day-visitors (mainly cruise-ship) declined 23 percent in the month to 10,952. This is attributed fewer P&O cruise visits (Pacific Dawn, Pacific Jewel, Pacific Pearl and Pacific Sun) to Port Vila in the month with en-route port calls to outer-island ports of Mystery Is (5), Wala Is (4) and Champagne Bay (2). These cruise-visits originated from Brisbane and Sydney ports. Compared to January 2010 (estimated seven P&O cruise visits with 15,286 visitors), day visitor arrivals to Vanuatu declined 28 percent over the year.

Air visitor arrivals declined 31 percent in the month to 6,672 visitors, with decreases in all major markets led by Australia, New Caledonia, Other Pacific Countries, New Zealand, Other Countries, Europe, North America and Japan. Visitors arriving to visit friends/relatives, on holiday and meeting/conferences declined in the month. Over the year to January 2011, air visitors declined 15 percent, with less visitors from all major markets mainly led by New Caledonia, Australia, Other Pacific Countries, and New Zealand. The decline was mainly due to decreases in visitors arriving for holiday and meetings/conferences, while visitors arriving to visit friends/relatives rose.

Seasonally adjusted, total air visitor arrivals declined 26 percent in the month. The average length of stay for visitors declined to 9 days, down from 10.6 days in the previous month.

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



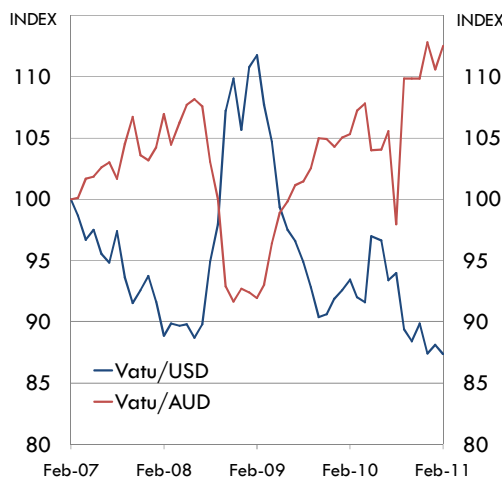
**Exchange Rate Developments – January 2011**

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

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Feb-11	93.09	94.49	69.80	128.07
1 month ago	93.88	92.89	72.30	127.69
%▲	-0.8	1.7	-3.5	0.3
3 months ago	95.77	92.26	71.53	125.65
%▲	-2.8	2.4	-2.4	1.9
12 months ago	99.55	88.47	68.85	134.97
%▲	-6.5	6.8	1.4	-5.1

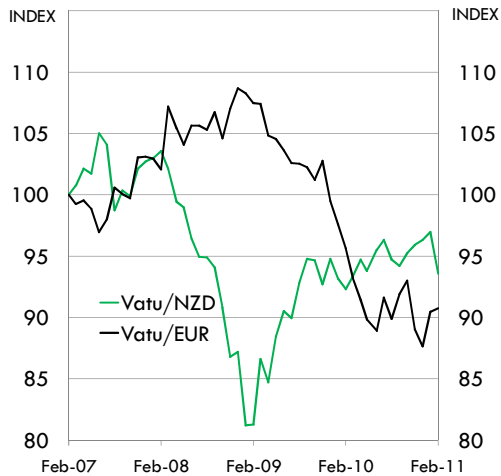
Note: (-) appreciation of vatu

**Figure XX: Exchange Rate against USD and AUD**  
(Indices; February 2007=100)



**Figure XX: Exchange Rate against NZD and EUR**

(Indices; February 2007=100)



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

The depreciation of the USD against the vatu occurred despite a number of indicators suggesting that the recovery in the US was gathering strength, including a fall in the unemployment rate. This can partially be attributed to the strong commitments made by the Federal Reserve to maintain an exceptionally loose monetary policy, which contrasted with comments from other major central banks indicating that rate increases were increasingly likely. Increasing oil prices following civil unrest in North Africa and the Middle East also contributed to investor doubts over the sustainability of growth in the US.

The AUD was supported by partial indicators showing an acceleration of GDP growth during the

fourth quarter of 2010, despite flood damage in Queensland during December. The currency also benefitted from reassurances from Saudi Arabia and the International Energy Agency that global oil supply was sufficient despite unrest in North Africa and the Middle East, which helped to maintain risk appetite. Over the month, the AUD appreciated in spite of the government of China, which has become a high profile driver of Australia's resources sector, indicating that it would target a lower growth rate over the coming five years.

The slight depreciation of the vatu against the EUR was driven by comments from the European Central Bank suggesting that a tightening of monetary policy was increasingly likely in response to accelerating headline inflation within the monetary union. Although the fiscal positions of a number of member states remained a risk to the outlook, the increasing perception amongst investors that interest rates would be increased earlier than previously thought likely outweighed this effect.

The appreciation against the New Zealand dollar was also supported by an increasing likelihood of the Reserve Bank of New Zealand either further slowing the normalisation of its monetary policy or loosening policy to support a recovery from the major earthquake in Christchurch. The central bank had previously indicated that subdued domestic demand would result in a slowing of monetary policy normalisation, but the added impact of the city's second major recent earthquake is likely to add weight to the argument for a more accommodative stance.

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

End of Period	Jan-10	Oct-10	Dec-10	Jan-11	%Change		
					1 Month	3 months	12months
Foreign Assets	14777.8	15257.1	15035.1	14868.4	-1.1	-2.5	0.6
Foreign Exchange 1/	14151.4	14631.2	14452.5	14285.7	-1.2	-2.4	0.9
Reserve Position with IMF	382.2	382.2	358.6	358.6	0.0	-6.2	-6.2
SDR Holdings	244.1	243.6	224.0	224.0	0.0	-8.0	-8.2
Claims on Government	618.5	1417.9	1419.4	1419.4	0.0	0.1	129.5
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	2070.3	2028.0	2109.7	230.0	-89.1	-88.7	-88.9
<b>Total Assets</b>	<b>17466.5</b>	<b>18703.0</b>	<b>18564.2</b>	<b>18483.4</b>	-0.4	-1.2	5.8
Reserve Money	9297.7	10019.8	11156.7	10669.2	-4.4	6.5	14.8
Currency outside Banks 3/	3665.6	4241.0	4553.3	4198.7	-7.8	-1.0	14.5
Commercial Banks Cash	892.6	925.2	1320.0	1083.5	-17.9	17.1	21.4
Commercial Banks Deposit with RBV	4739.6	4853.7	5283.5	5387.1	2.0	11.0	13.7
Foreign Liabilities 2/	2871.8	2714.5	2714.1	2709.1	-0.2	-0.2	-5.7
Government Deposits, of which	3560.7	3605.5	2756.4	2702.8	-1.9	-25.0	-24.1
Government contribution to RTP	382.2	382.2	358.6	358.6	0.0	-6.2	-6.2
RBV Notes	1046.3	1746.2	1196.5	1746.7	46.0	0.0	66.9
Other Liabilities	690.0	608.2	834.9	645.0	-22.7	6.1	-6.5
<b>TOTAL LIABILITIES</b>	<b>17466.5</b>	<b>18703.0</b>	<b>18564.2</b>	<b>18483.4</b>	-0.4	-1.2	5.8

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	Jan-10	Oct-10	Dec-10	Jan-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	892.6	925.2	1320.0	1083.5	-17.9	17.1	21.4
Deposits with RBV	4739.6	4853.7	5283.5	5387.1	2.0	11.0	13.7
RBV Notes	1046.3	1746.2	1196.5	1746.7	46.0	0.0	66.9
Foreign Assets, of which	28902.2	22345.9	21780.6	20879.6	-4.1	-6.6	-27.8
Claims on non-residents' banks	25588.6	2543.5	2520.5	2564.5	1.7	0.8	-90.0
Claims on Private sector	38589.1	42977.7	43857.3	43840.4	0.0	2.0	13.6
Claims on Government	434.5	686.7	786.3	786.3	0.0	14.5	81.0
Other claims 1/	120.4	42994.8	43873.1	43847.1	-0.1	2.0	36315.4
Other Assets	3251.3	3276.3	43952.6	43952.6	0.0	1241.5	1251.9
<b>TOTAL ASSETS</b>	<b>77976.0</b>	<b>77001.0</b>	<b>77677.9</b>	<b>77389.1</b>	-0.4	0.5	-0.8
Demand Deposits, of which	17333.6	16639.7	17591.8	17520.3	-0.4	5.3	1.1
Foreign currency	9326.0	7638.0	8097.5	8291.6	2.4	8.6	-11.1
Savings deposits, of which	4540.8	5451.4	5536.5	5527.7	-0.2	1.4	21.7
Foreign currency	415.1	395.6	390.4	400.2	2.5	1.2	-3.6
Time deposits, of which	32895.4	29078.4	28870.4	28354.9	-1.8	-2.5	-13.8
Foreign Currency	15731.2	11012.9	10854.1	10031.8	-7.6	-8.9	-36.2
Foreign Liabilities, of which	8045.5	12194.5	12226.1	12226.5	0.0	0.3	52.0
Non residents Banks	2974.4	3114.2	3229.9	3254.1	0.8	4.5	9.4
Government Deposits	933.8	590.3	632.2	603.8	-4.5	2.3	-35.3
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	14227.0	13046.7	12820.8	13155.8	2.6	0.8	-7.5
<b>TOTAL LIABILITIES</b>	<b>77976.0</b>	<b>77001.0</b>	<b>77677.9</b>	<b>77389.1</b>	-0.4	0.5	-0.8

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	Jan-10	Oct-10	Dec-10	Jan-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	32,762.7	22,694.0	21,875.5	20,812.3	-4.9	-8.3	-36.5
Monetary Authorities (Net)	11,906.0	12,542.5	12,321.1	12,159.2	-1.3	-3.1	2.1
Commercial Banks (Net)	20,856.7	10,151.4	9,554.4	8,653.0	-9.4	-14.8	-58.5
2. Net Domestic Assets	25,672.7	49,485.0	51,094.0	51,100.9	0.0	3.3	99.0
(a) Domestic Credit	35,997.5	41,100.8	42,885.3	42,945.1	0.1	4.5	19.3
(i) Net claims on government	(3,441.5)	(2,091.2)	(1,183.0)	(1,100.9)	6.9	47.4	68.0
Monetary Authorities	(2,942.3)	(2,187.6)	(1,337.0)	(1,283.4)	4.0	41.3	56.4
Commercial Banks	(499.3)	96.4	154.1	182.5	-18.5	-89.3	136.6
(ii) Claims on Non financial Public enterprises (NFPE)	105.5	98.8	95.3	98.7	3.5	-0.1	-6.5
(iii) Claims on Private Sector (1)	39,318.7	43,076.2	43,957.1	43,940.7	0.0	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	14.9	17.1	15.8	6.6	-58.1	-61.2	-55.6
(b) Other items (net)	(10,324.8)	8,384.2	8,208.8	8,155.8	-0.6	-2.7	-179.0
3. Total Assets= Total Money Supply (M2)	58,435.4	55,410.5	56,551.9	55,601.6	-1.7	0.3	-4.8
(a) Money (M1)	20,999.2	20,880.7	22,145.1	21,718.9	-1.9	4.0	3.4
(i) Currency outside Banks	3,665.6	4,241.0	4,553.3	4,198.7	-7.8	-1.0	14.5
(ii) Demand deposits	17,333.6	16,639.7	17,591.8	17,520.3	-0.4	5.3	1.1
(b) Quasi-money	37,436.2	34,529.8	34,406.9	33,882.6	-1.5	-1.9	-9.5
(i) Saving Deposits	4,540.8	5,451.4	5,536.5	5,527.7	-0.2	1.4	21.7
(ii) Time Deposits	32,895.4	29,078.4	28,870.4	28,354.9	-1.8	-2.5	-13.8

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Jan-10	Oct-10	Dec-10	Jan-11
1. Net Foreign Assets	(646.3)	(470.5)	(1,133.6)	(1,063.2)
Monetary authorities	306.3	(54.4)	(150.5)	(161.8)
Commercial Banks	(952.6)	(416.1)	(983.1)	(901.4)
2. Domestic Money creation	(1,063.8)	(302.7)	834.8	6.9
(a) Domestic credit	(1,136.9)	90.7	999.8	59.9
Net Claims on Government	(470.6)	316.7	325.8	82.1
Monetary Authorities (net)	(503.0)	284.5	167.8	53.7
Commercial Banks (net)	32.4	32.2	158.0	28.5
Claims on non financial public enterprises	(1.8)	2.8	(4.3)	3.3
Claims on Private sector	(663.0)	(228.6)	679.5	(16.4)
(b) Other Domestic factor	73.1	(393.4)	(165.0)	(53.0)
3. Money Supply creation (M4)	(1,449.1)	13.6	31.2	(950.4)
Money (M1)	(1,449.1)	(327.6)	349.6	(426.1)
Quasi-money	0.0	341.2	(318.4)	(524.2)

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

End of Period	Nov-10	Dec-10	Jan-11
Reserves	52.2	30.4	0.0
Domestic currency	52.24	30.38	0.00
Deposits with RBV	0	0.00	0.00
RBV Notes	0	0.00	0.00
Foreign Assets 1/	0	0.00	0.00
Claims on non-resident banks; of which	0	0.00	0.00
Vanuatu's offshore financial Inst. 2/			
Claims on non-resident nonbanks	0	0.00	0.00
Claims on Government	0	0.00	0.00
Claims on Municipalities	0	0.00	0.00
Claims on public enterprises	0	0.00	0.00
Claims on private sector	1025.09	1,061.10	785.15
Claims on other finan. Inst. 2/			
Inter-bank claims	44.82	37.92	32.04
Fixed Assets	18.59	18.29	4.92
Debit Items for collection	0	0.00	0.00
Unclassified assets	7.57	7.66	12.040
<b>TOTAL</b>	<b>1,148.3</b>	<b>1,155.3</b>	<b>834.14</b>
Demand Deposits	0.0	0.0	0.0
Local currency	0.0	0.00	0.00
Foreign currency	0.0	0.00	0.00
Savings deposits	-	0.00	0.00
Local currency	0	0.00	0.00
Foreign currency	0	0.00	0.00
Time deposits	183.3	186.9	181.87
Local currency	183.33	186.92	181.869
Foreign currency			
Foreign Liabilities	0.4	0.5	0.568
Non residents banks & Financial Institution	0.44	0.51	0.568
Non residents nonbanks			
Government Deposits			
Credit from monetary authorities			
Capital and fixed reserves	768.68	768.68	368.20
Profit and loss accounts	39.95	39.28	57.08
Reserves including Provisions	56.65	59.65	50.64
Inter-bank liabilities			
Unclassified Liabilities	99.22	287.23	175.797
<b>TOTAL</b>	<b>1148.3</b>	<b>1342.3</b>	<b>834.14</b>
Other items (net)	91.6	279.6	163.8
[Unclassified Liabilities [minus Unclassified Assets]			