



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC NEWS

### SUMMARY

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Issue 156

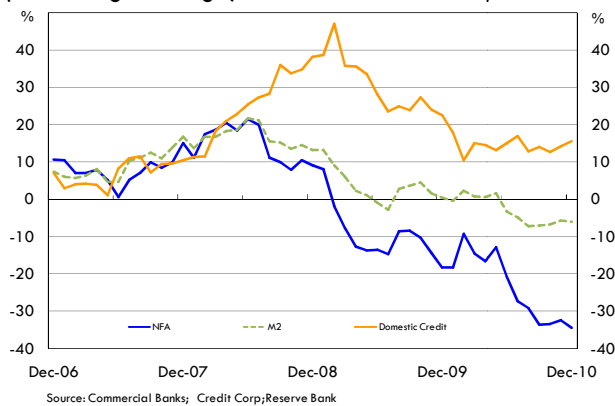
January 2011

### MONETARY SURVEY

Broad money supply (M2) remained virtually unchanged during December, after increasing by 2.0 percent during the previous month. The December change represented a 5.0 percent decrease in the banking system's net foreign assets (NFA), which was counterbalanced by a 1.9 percent increase in domestic credit. The annual growth rate of M2 for the year ending December 2010 remained negative at -5.6 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)

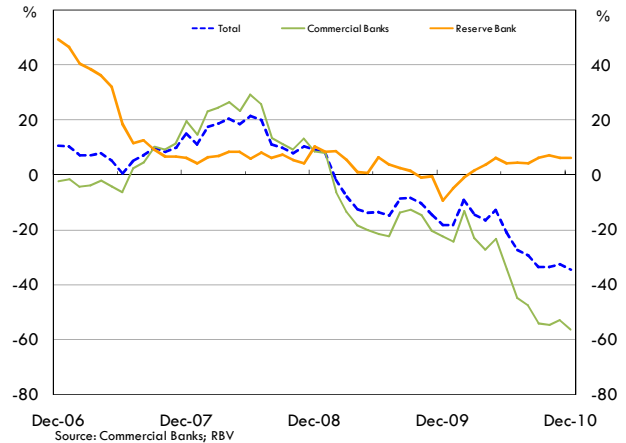


### Determinants of Money Supply

After recording an increase in November following five consecutive months of decline, the total NFA of the banking system resumed a downward trend in December driven mainly by decreases in NFA holdings of both the 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 -34.6 percent.

**Chart 2: Net Foreign Assets**

(Percentage Change; Year-on-Year Growth)



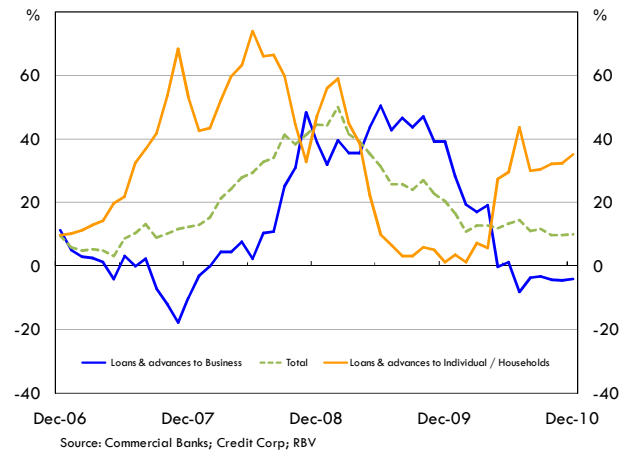
The decrease in the NFA of the Reserve Bank stemmed mainly from a 1.0 percent decline in its foreign assets, while its foreign liabilities remaining largely unchanged. The decline in foreign assets reflected net outflows of foreign exchange during the month. Projected months of import cover stood at 5.8 months above the bank's minimum comfortable threshold of 4.0 months. The year-on-year records showed an improvement of 6.2 percent in the Reserve Bank's NFA position, an increase of 0.1 percent points compared to the previous month.

The commercial banks' NFA decreased during December as a result of their foreign asset holdings contracting 4.8 percent, outweighing a 0.8 percent decrease in their foreign liabilities. Over the year to December 2010, the growth in commercial banks' NFA remained negative at -56.2 percent.

Domestic credit growth increased by 1.9 after an increase of 1.9 percent in November. This resulted in the annual growth rate increasing to 15.5 percent from 14.3 percent recorded over the year to November. Growth during December was attributed primarily to an increase in the banking system's net claims on the government, followed by credit to the private sector. Loans to non-financial

public enterprises and municipalities decreased 4.3 percent and 7.0 percent respectively, during the month.

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



Private sector credit<sup>1</sup> grew by 1.6 percent in December, up from 0.2 percent recorded in November. The annual growth rate picked up to 9.9 percent in December from 9.7 percent over the year to November 2010.

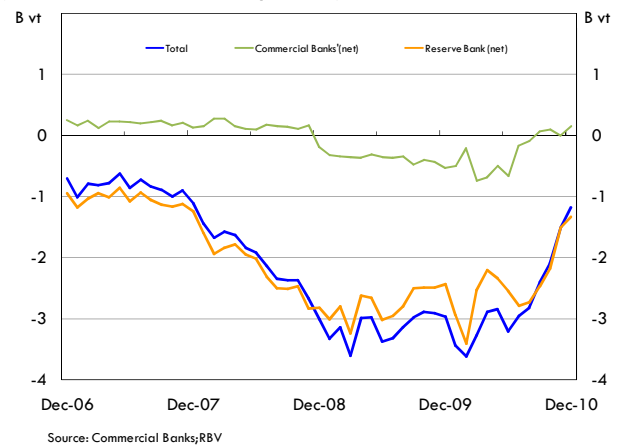
Credit to the private sector offered by Other Depository Institutions<sup>2</sup> stood at VT 1061.4 million, which represented an increase of 3.5 percent during the month of December.

The increase over the month resulted from increases in loans and advances to both individuals & households and to businesses. Lending to individuals & households increased by 2.2 percent, up from the 1.0 percent increase recorded the previous month. Loans to businesses increased by 2.6 percent. Over the year, loans to business recorded a 4.2 percent decrease and loans to individuals & households recorded a 35.4 percent increase.

Loans extended to municipalities recorded a 7.0 percent monthly decrease, causing the year ended growth rate to be negative at -3.9 percent. Loans to non-financial public enterprises decreased by 4.3 percent during December; which represented an 11.1 percent decrease over the year to December.

The government's net credit position vis-à-vis the banking system continued to deteriorate in December 2010. The Reserve Bank's net claims on the government increased by 7.7 percent over the month, driven by a continued decline in deposits, bringing the year-on-year increase to 45.2 percent. However, the commercial banks' net claims on the government returned to a positive, meaning that the government again became a net borrower from the banks, as a result of both a decrease in deposits with commercial banks and an increase in borrowing from the banks. Over the year to December, the government's net credit position with the banking system as a whole deteriorated by 60.2 percent (Chart 4).

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

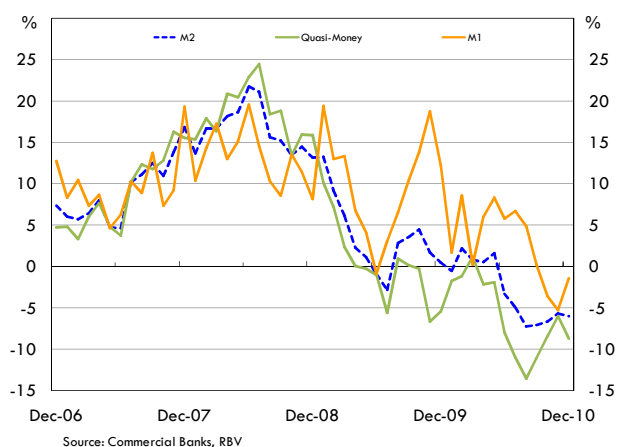


**Measures of Money Supply**

The stable level of M2 resulted from a 1.6 percent increase in M1 balancing out a decrease of 0.9 percent in quasi-money. Over the year ending December 2010, a 5.6 percent decline in M2 was driven mainly by quasi-money, which fell by 8.1 percent, whilst M1 declined by 1.4 percent (Chart 5).

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

<sup>1</sup> Credit to the private sector includes data from commercial banks, and the RBV, excluding other depository institutions.  
<sup>2</sup> Credit Corporation, Vanuatu National Provident Fund, and Vanuatu Agricultural Development Bank.

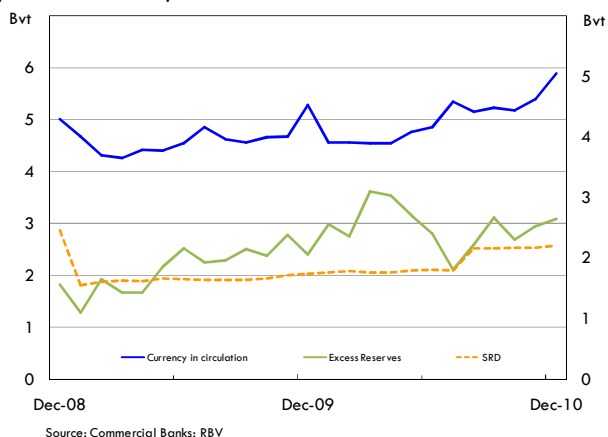


The month-on-month increase in M1 was driven by a 1.2 percent increase in demand deposits and a 3.0 percent increase in currency outside banks. The increase in demand deposits stemmed from a 2.7 percent increase in local currency deposits which outweighed a 0.6 percent decline in the foreign currency component.

**Reserve Money**

Reserve money<sup>3</sup> increased by 6.1 percent in December, and 18.5 percent on a year-on-year basis. The monthly increase was due to a 5.4 percent increase in commercial banks' deposits with the RBV and a 34.3 percent increase in their cash holdings.

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



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

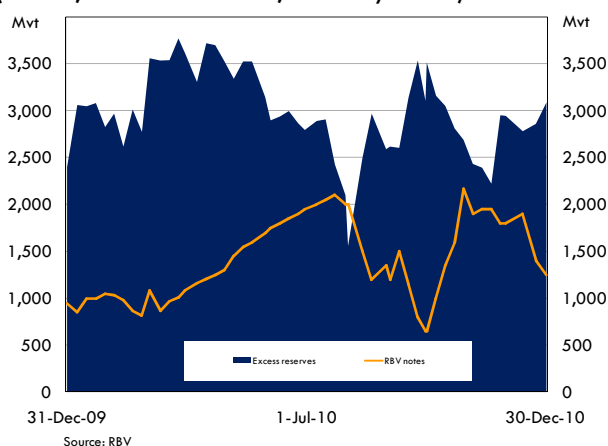
The Bank conducted three Open Market Operations during January 2011 where it issued

<sup>3</sup> Reserve money comprises currency in circulation, Statutory Reserve Deposits (SRD) and Excess Reserves.

VT1.5 billion in RBV notes compared to VT800 million over the previous month.

Total subscription received for these issues was recorded at VT2.85 billion compared to VT1.3 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 January 2011.

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



Total maturity for the month was VT950 million leaving outstanding notes at VT1.75 billion at the end of January compared to VT1.25 billion at the end of the previous month.

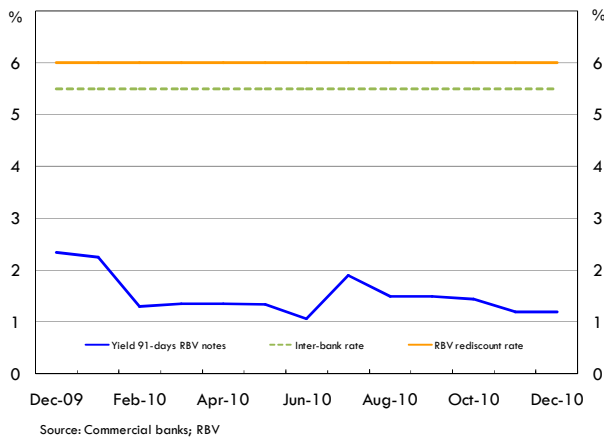
**Table 1: Amount Allotted (Millions of Vatu)**

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

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

Term	End Jan. 2011	End Dec 2010
7 days	0.80	0.80
14 days	0.80	0.80
28 days	0.80	0.80
63 days	1.20	0.80
91 days	1.20	0.80

**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
Oct-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Nov-10	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
Dec-10	0.5-5.00	1.50-6.00	1.50-6.50	2.50-9.00
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Oct-10	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
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

As shown in Table 4, commercial banks' deposit interest rates for the 1-month and 2-6 months categories declined, while lending rates remained unchanged from the previous month.

**Tourism Update –December 2010**

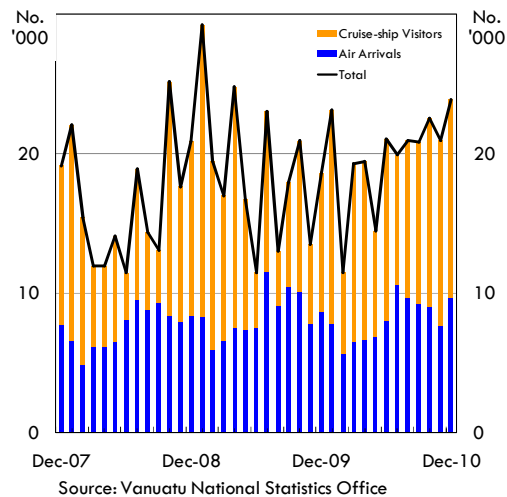
In December 2010, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu rose 14 percent and 28 percent over the month and year respectively, to reach 23,839. Day visitors (mainly cruise-ship) rose 7 percent in the month to 14,206 visitors. This can be attributed to eight P&O cruise visits (Pacific Dawn, Pacific Jewel and Pacific Sun) to Port Vila in the month, with en-route port calls to outer-island ports of Wala Is (1) and Mystery Is (4). These cruise-visits originated from Brisbane and Sydney ports. Compared to December 2009 (five P&O cruise visits with 9,907 visitors), day visitor arrivals to Vanuatu rose 43 percent.

Air visitor arrivals rose 27 percent in the month to 9,633 visitors, with increases in arrivals from

Australia, New Caledonia and Other Pacific Countries more than offsetting the drop in visitors from Europe, North America and Japan. Visitors arriving to visit friends/relatives, on holiday and meeting/conferences rose in the month. Compared to December 2009, air visitors rose 11 percent, due to increased visitors from Australia, Other Pacific Countries, New Caledonia and New Zealand, with a decline in visitors from North America. The increase was mainly due to increase in visitors arriving to visit friends, and for meeting/conferences.

Seasonally adjusted, total air visitor arrivals rose 10 percent in the month. Compared to 2009, the cumulative sum for the whole of 2010 showed a 3 percent drop in air visitor arrivals and a 13 percent increase in cruise-ship arrivals. Overall, total non-resident visitor arrivals into the country grew by 5 percent to 237,648 visitors in 2010 compared to 225,493 visitors in the previous year. The average length of stay in December rose to 10.6 days, up from 8.6 days in the previous month.

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



**December Quarter 2010 - Consumer Price Index Update**

In the December quarter of 2010, the Consumer Price Index rose 3.4 percent compared to the December quarter of 2009 (annual inflation), with the indices for Port Vila and Luganville showing increases of 3.5 percent and 2.6 percent respectively. This was contributed mainly by increases in food, alcoholic drinks & tobacco,

housing & utilities, transport, and communication prices, offset by price decline in the education, clothing and footwear indices. Over the previous quarter (quarterly inflation), the CPI rose by a moderate 0.2 percent with Port Vila recording a 0.1 percent increase and Luganville 0.6 percent. The slight increase was shown for drinks & tobacco and food, mainly driven by price increases in tobacco, dairy and related products (ice cream and powder milk). An increase was also shown for the household supplies, communication, clothing, and footwear groups, whilst price decreases were shown for health and housing & utilities; due to a fall in private dental fees and electricity supply charges. Underlying inflation<sup>4</sup> rose 0.2 percent over the previous quarter and declined 0.4 percent over the December quarter of 2009.

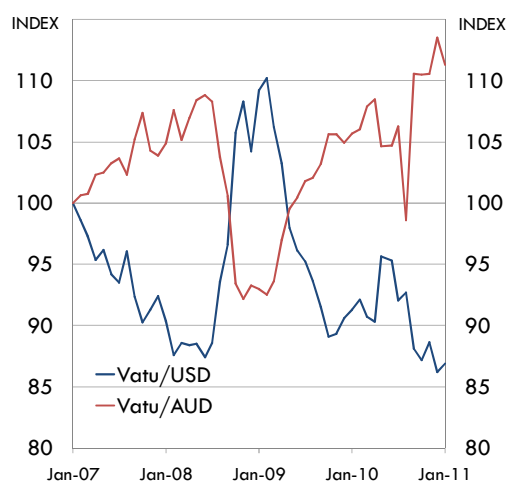
**Exchange Rate Developments – January 2011**

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

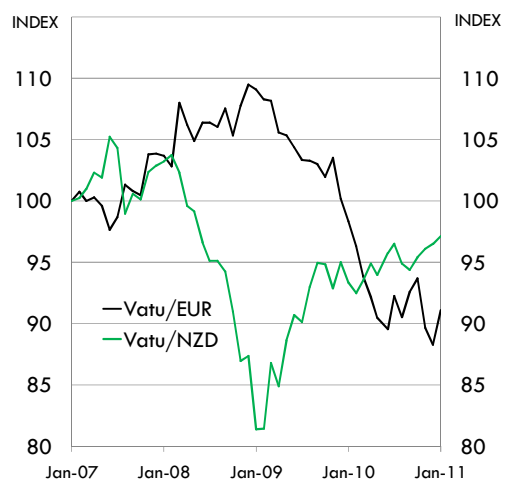
	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Jan-11	93.88	92.89	72.30	127.69
1 month ago	93.15	94.72	71.84	123.75
%▲	0.8	-1.9	0.6	3.2
3 months ago	94.21	92.23	71.01	131.28
%▲	-0.4	0.7	1.8	-2.7
12 months ago	98.65	88.19	69.49	137.77
%▲	-4.8	5.3	4.0	-7.3

Note: (-) appreciation of vatu

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



**Figure XX: Exchange Rate against NZD and EUR**  
(Indices; January 2007=100)



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

The depreciation of the AUD during the month followed increased economic uncertainty after widespread flooding in Queensland. Flood damage was expected to have a significant impact on output from the major crop and coal producing region during early 2011. Furthermore, figures showing a slowing in inflation during the fourth quarter of 2010 likely reduced immediate pressure on the Reserve Bank of Australia to further raise interest rates. December figures also showed a narrowing of Australia’s trade surplus, with exports failing to record significant growth in the month.

The USD was supported by an increasingly optimistic outlook for the US economy; first estimates of GDP growth during the fourth quarter showed an acceleration, whilst a private-sector

<sup>4</sup> 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.

jobs report suggested a pickup in job creation. It is also likely that some USD purchases were a safe-haven response to civil unrest in Egypt at the end of the month, which had the potential to disrupt trade through the Suez Canal.

The NZD continued to benefit from high commodity export prices, which increased further in January. Strong demand from Asia combined with the improvement in the outlook for the US economy increased the likelihood of further improvements in New Zealand's terms of trade. The high income from exports increased investor expectations that the Reserve Bank of New Zealand would continue removal of monetary stimulus by increasing the policy rate, contributing to the appreciation of the currency.

Comments from the European Central Bank indicated increasing concern of accelerating inflation, increasing the perceived likelihood of monetary tightening and likely contributing to the appreciation of the EUR in the month. Investor concerns of contagion from unsustainable sovereign debt amongst some peripheral members also showed signs of easing, with the difference in yield between German bonds and those of Greece, Ireland, and Spain narrowing. Both, the German Chancellor, Angela Merkel, and the French President, Nicolas Sarkozy, took the opportunity of the World Economic Forum in Davos to reiterate their commitment to the single currency.

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

End of Period	Dec-09	Sep-10	Nov-10	Dec-10	%Change		
					1 Month	3 months	12 months
Foreign Assets	14777.8	15312.0	15186.7	15035.1	-1.0	-1.8	1.7
Foreign Exchange 1/	14151.4	14686.1	14560.5	14452.5	-0.7	-1.6	2.1
Reserve Position with IMF	382.2	382.2	382.2	358.6	-6.2	-6.2	-6.2
SDR Holdings	244.1	243.6	244.0	224.0	-8.2	-8.0	-8.2
Claims on Government	618.5	1417.9	1417.7	1419.4	0.1	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	2037.1	1997.7	2109.7	5.6	3.6	1.9
<b>Total Assets</b>	<b>17466.5</b>	<b>18766.9</b>	<b>18602.1</b>	<b>18564.2</b>	-0.2	-1.1	6.3
Reserve Money	9297.7	10479.5	10515.5	11156.7	6.1	6.5	20.0
Currency outside Banks 3/	3665.6	4178.1	4408.9	4541.5	3.0	8.7	23.9
Commercial Banks Cash	892.6	1038.3	991.9	1331.7	34.3	28.3	49.2
Commercial Banks Deposit with RBV	4739.6	5263.1	5114.7	5283.5	3.3	0.4	11.5
Foreign Liabilities 2/	2871.8	2715.0	2715.1	2714.1	0.0	0.0	-5.5
Government Deposits, of which	3560.7	3890.0	2922.5	2756.4	-5.7	-29.1	-22.6
Government contribution to RTP	382.2	382.2	382.2	358.6	-6.2	-6.2	-6.2
RBV Notes	1046.3	647.8	1795.8	1196.5	-33.4	84.7	14.4
Other Liabilities	690.0	1024.5	645.3	834.9	29.4	-18.5	21.0
<b>TOTAL Liabilities</b>	<b>17466.5</b>	<b>18766.9</b>	<b>18602.1</b>	<b>18564.2</b>	-0.2	-1.1	6.3

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	Dec-09	Sep-10	Nov-10	Dec-10	%Change		
					1 Month	3 months	12 Months
Domestic currency	892.6	1038.3	991.9	1331.7	34.3	28.3	49.2
Deposits with RBV	4739.6	5263.1	5114.7	5283.5	3.3	0.4	11.5
RBV Notes	1046.3	647.8	1795.8	1196.5	-33.4	84.7	14.4
Foreign Assets, of which	28902.2	22778.2	22863.1	21768.8	-4.8	-4.4	-24.7
Claims on non-residents' banks	25588.6	2513.9	2556.8	2520.5	-1.4	0.3	-90.1
Claims on Private sector	38589.1	42473.3	43177.3	43857.3	1.6	3.3	13.7
Claims on Government	434.5	686.7	686.7	786.3	14.5	14.5	81.0
Other claims 1/	120.4	42490.5	43194.3	43873.1	1.6	3.3	36337.0
Other Assets	3251.3	3715.0	2127.8	43952.6	1965.6	1083.1	1251.9
<b>TOTAL ASSETS</b>	<b>77976.0</b>	<b>76715.6</b>	<b>78107.4</b>	<b>77677.9</b>	-0.5	1.3	-0.4
Demand Deposits, of which	17333.6	17030.2	17386.6	17591.8	1.2	3.3	1.5
Foreign currency	9326.0	7584.8	8145.7	8097.5	-0.6	6.8	-13.2
Savings deposits, of which	4540.8	5226.6	5443.4	5536.5	1.7	5.9	21.9
Foreign currency	415.1	406.6	383.1	390.4	1.9	-4.0	-5.9
Time deposits, of which	32895.4	28962.0	29281.9	28870.4	-1.4	-0.3	-12.2
Foreign Currency	15731.2	10889.8	11145.4	10854.1	-2.6	-0.3	-31.0
Foreign Liabilities, of which	8045.5	12210.7	12325.7	12226.1	-0.8	0.1	52.0
Non residents Banks	2974.4	3168.3	3084.3	3229.9	4.7	1.9	8.6
Government Deposits	933.8	622.5	690.6	632.2	-8.5	1.6	-32.3
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	14227.0	12663.6	12979.2	12820.8	-1.2	1.2	-9.9
<b>TOTAL LIABILITIES</b>	<b>77976.0</b>	<b>76715.6</b>	<b>78107.4</b>	<b>77677.9</b>	-0.5	1.3	-0.4

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	Dec-09	Sep-10	Nov-10	Dec-10	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	33,409.0	23,164.5	23,009.0	21,863.7	-5.0	-5.6	-34.6
Monetary Authorities (Net)	11,599.7	12,596.9	12,471.6	12,321.1	-1.2	-2.2	6.2
Commercial Banks (Net)	21,809.4	10,567.5	10,537.5	9,542.7	-9.4	-9.7	-56.2
2. Net Domestic Assets	26,736.6	49,787.7	50,259.2	51,094.0	1.7	2.6	91.1
(a) Domestic Credit	37,134.5	41,010.1	41,885.4	42,885.3	1.9	4.6	15.5
(i) Net claims on government	(2,970.9)	(2,407.9)	(1,508.8)	(1,183.0)	21.6	50.9	60.2
Monetary Authorities	(2,439.2)	(2,472.1)	(1,504.8)	(1,337.0)	7.7	45.9	45.2
Commercial Banks	(531.7)	64.2	(3.9)	154.1	4,004.5	-140.1	129.0
(ii) Claims on Non financial Public enterprises (NFPE)	107.3	95.9	99.6	95.3	-4.3	-0.7	-11.1
(iii) Claims on Private Sector (1)	39,981.7	43,304.8	43,277.6	43,957.1	1.6	1.5	9.9
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	
(v) Claims on Municipalities	16.5	17.3	17.0	15.8	-7.0	-8.5	-3.9
(b) Other items (net)	(10,397.9)	8,777.6	8,373.8	8,208.8	-2.0	-6.5	-178.9
3. Total Assets= Total Money Supply (M2)	59,884.5	55,396.9	56,520.7	56,540.2	0.0	2.1	-5.6
(a) Money (M1)	22,448.3	21,208.3	21,795.4	22,133.3	1.6	4.4	-1.4
(i) Currency outside Banks	3,916.5	4,178.1	4,408.9	4,541.5	3.0	8.7	16.0
(ii) Demand deposits	18,531.8	17,030.2	17,386.6	17,591.8	1.2	3.3	-5.1
(b) Quasi-money	37,436.2	34,188.6	34,725.3	34,406.9	-0.9	0.6	-8.1
(i) Saving Deposits	4,540.8	5,226.6	5,443.4	5,536.5	1.7	5.9	21.9
(ii) Time Deposits	32,895.4	28,962.0	29,281.9	28,870.4	-1.4	-0.3	-12.2

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Dec-09	Sep-10	Nov-10	Dec-10
1. Net Foreign Assets	(685.4)	(1,091.3)	315.1	(1,145.3)
Monetary authorities	(157.0)	95.8	(71.0)	(150.5)
Commercial Banks	(528.5)	(1,187.1)	386.0	(994.8)
2. Domestic Money creation	869.6	(36.5)	774.2	834.8
(a) Domestic credit	478.8	998.0	784.7	999.8
Net Claims on Government	(53.5)	421.7	582.5	325.8
Monetary Authorities (net)	50.9	265.5	682.8	167.8
Commercial Banks (net)	(104.4)	156.3	(100.4)	158.0
Claims on non financial public enterprises	(1.0)	(0.8)	0.8	(4.3)
Claims on Private sector	529.5	571.9	201.4	679.5
(b) Other Domestic factor	390.8	(1,034.5)	(10.5)	(165.0)
3. Money Supply creation (M4)	(820.5)	941.2	1,110.2	19.5
Money (M1)	(559.4)	218.4	914.7	337.9
Quasi-money	(261.1)	722.7	195.5	(318.4)



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

End of Period	Nov-10	Dec-10
Reserves	52.2	30.4
Domestic currency	52.24	30.38
Deposits with RBV	0	0.00
RBV Notes	0	0.00
Foreign Assets 1/	0	0.00
Claims on non-resident banks; of which	0	0.00
Vanuatu's offshore financial Inst. 2/		
Claims on non-resident nonbanks	0	0.00
Claims on Government	0	0.00
Claims on Municipalities	0	0.00
Claims on public enterprises	0	0.00
Claims on private sector	1025.09	1,061.10
Claims on other finan. Inst. 2/		
Inter-bank claims	44.82	37.92
Fixed Assets	18.59	18.29
Debit Items for collection	0	0.00
Unclassified assets	7.57	7.66
<b>TOTAL</b>	<b>1,148.3</b>	<b>1,155.3</b>
Demand Deposits	0.0	0.0
Local currency	0.0	0.00
Foreign currency	0.0	0.00
Savings deposits	-	0.00
Local currency	0	0.00
Foreign currency	0	0.00
Time deposits	183.3	
Local currency	183.33	186.92
Foreign currency		
Foreign Liabilities	0.4	0.5
Non residents banks & Financial Institution	0.44	0.51
Non residents nonbanks		
Government Deposits		
Credit from monetary authorities		
Capital and fixed reserves	768.68	768.68
Profit and loss accounts	39.95	39.28
Reserves including Provisions	56.65	59.65
Inter-bank liabilities		
Unclassified Liabilities	99.22	287.23
<b>TOTAL</b>	<b>1148.3</b>	<b>1155.3</b>
Other items (net)	91.6	279.6
[Unclassified Liabilities [minus Unclassified Assets]		