



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC NEWS

### SUMMARY

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Issue 157

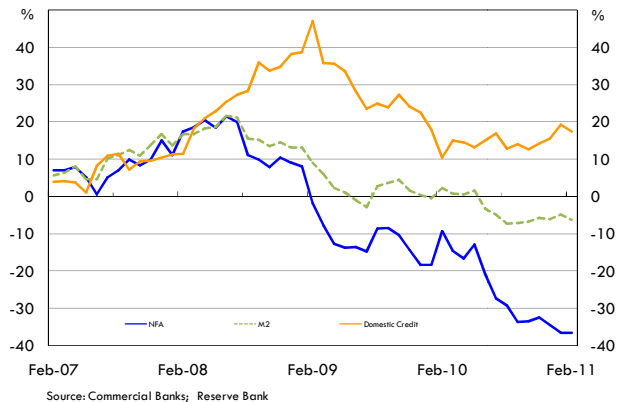
March 2011

### MONETARY SURVEY

Broad money supply (M2) increased by 0.4 percent in February, after decreasing by 1.7 percent during January. The increase stemmed mainly from a 2.8 percent increase in the banking system's net foreign assets (NFA), which outweighed a 0.6 percent decrease in domestic credit. The annual growth rate of M2 for the year ending February 2011 remained negative at -5.0 percent.

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

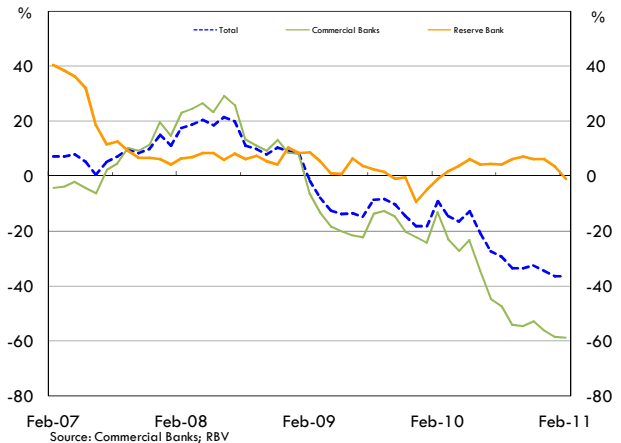
**Chart 1: Total Money Supply**  
(Percentage Change; Year-on-Year Growth)



### Determinants of Money Supply

In February, the banking system's total NFA increased after recording a persistent downward trend, resulting from increases in the NFA of both commercial banks and the Reserve Bank by 2.0 percent and 3.4 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)



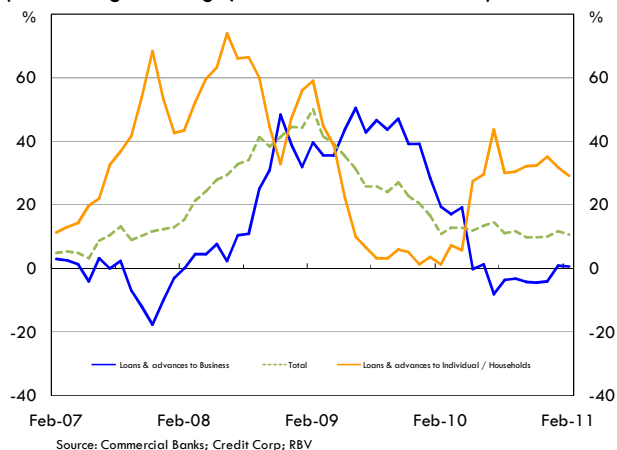
The increase in the NFA of the Reserve Bank resulted from a 1.3 percent increase in its foreign assets combined with a 7.7 percent decrease in foreign liabilities. The increase in foreign assets reflected net inflows of foreign exchange during the month. Projected months of import cover stood at 5.9, above the bank's minimum comfortable threshold. The year-on-year records showed an increase of 2.4 percent in the Reserve Bank's NFA position, up from a 2.1 percent increase over the year to January 2011.

The increase in the commercial banks' NFA in February was driven by an 8.3 percent contraction in foreign liabilities, which outweighed a 4.0 percent decrease in foreign assets. Over the year to February 2011, the growth in commercial banks' NFA remained negative at -58.8 percent.

Domestic credit decreased by 0.6 percent in February, after recording a slight increase during the previous month. The annual growth rate over the year to February 2011 slowed to 17.4 percent as compared to 19.3 percent over the year to January. The decline in February was attributed primarily to a decrease in the banking system's net

claims on the government, with a reduction in claims on non-financial public enterprises also making a contribution. Banking system claims on the private sector increased by 0.4 percent and 10.6 percent during February and over the year to the same month, respectively.

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

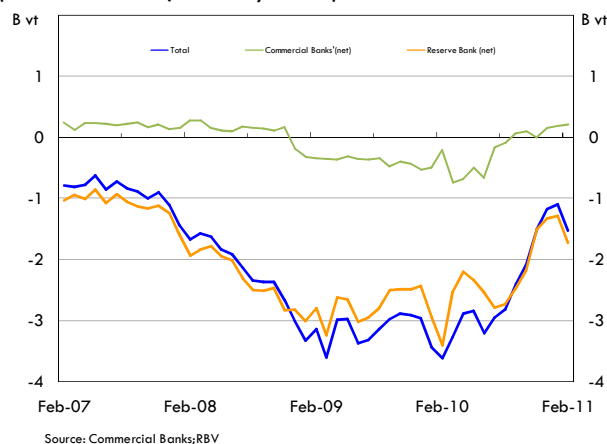


Lending to individuals & households recorded a decrease of 0.4 percent, which counterbalanced a 1.4 percent increase in loans to businesses, and resulted in overall credit to private sector to recording a slight increase over the month. Over the year, loans to business recorded a 0.5 percent increase and loans to individuals & households recorded a 29.2 increase.

After a 58.1 percent decrease in January 2011, loans to municipalities declined by 13.0 percent in February, resulting in year-ended growth of -47.9 percent.

After recording several consecutive months of deterioration, the government’s net credit position vis-à-vis the banking system improved in February. The Reserve Bank’s net claims on the government decreased by -31.5 percent over the month, driven by an increase in government deposits and a decline in borrowings and some government bonds held by the RBV maturing.. However on a year-on-year basis, the Reserve Bank’s net claims on the government showed an increase of 49.1percent. The commercial banks’ net claims on the government decreased by 12.9 percent in February, resulting primarily from an increase in government deposits. Over the year to February, the government’s net credit position with the banking system as a whole improved by 57.8 percent (Chart 4).

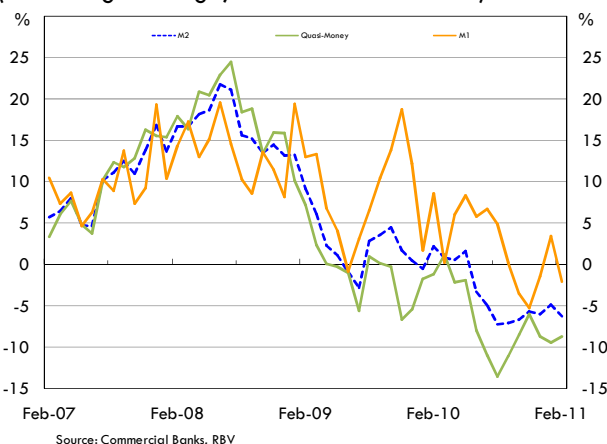
**Chart 4: Net Claims on Government**  
(Billions of Vatu; Monthly Data)



**Measures of Money Supply**

The increase in M2 stemmed from a 1.1 percent increase in quasi money which outweighed a 0.6 percent decrease in narrow money (M1). Over the year ending February 2011, a 5.0 percent decline in M2 was driven mainly by quasi-money, which fell by 6.7 percent, whilst M1 declined by 2.1 percent (Chart 5).

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

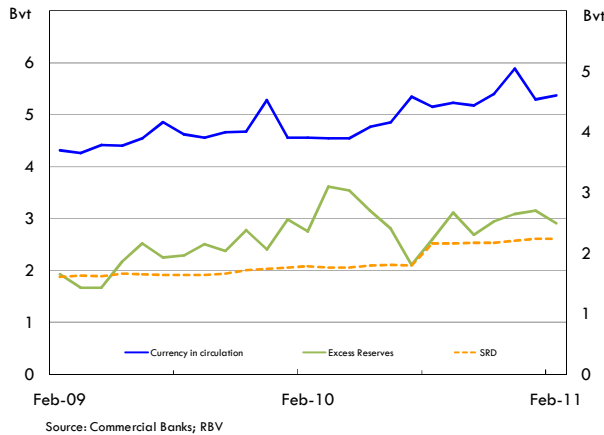


The month-on-month decrease in M1 was driven by a 0.9 percent decrease in demand deposits, which outweighed a 0.6 percent increase in currency outside banks. The decrease in demand deposits stemmed from a 1.6 percent and 0.1 percent decrease in local currency deposits and foreign currency deposits respectively.

**Reserve Money**

Reserve money<sup>1</sup> decreased by 1.7 percent in February, but increased by 15.7 percent on a year-on-year basis. The monthly decrease was due to an 8.1 percent decrease in commercial banks' cash holdings, whilst their deposits remained unchanged.

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

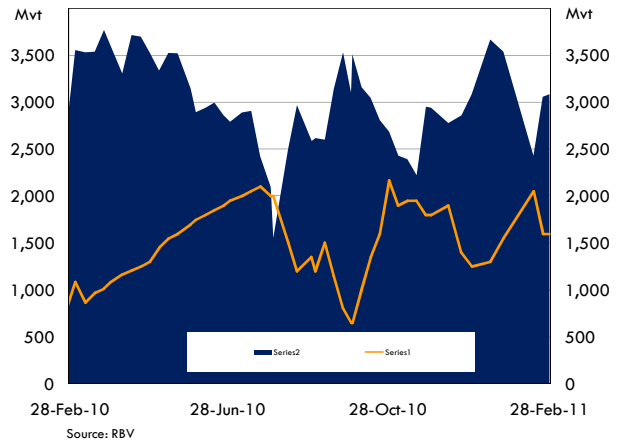


**Open Market Operations (OMO) – March 2011**

The Bank conducted five Open Market Operations in March 2011, where it issued VT2.2 billion in RBV Notes compared to VT1.35 billion over the previous month.

Total subscription received for these issues was recorded at VT3.6 billion, compared to VT2.4 billion for the previous month. This high level of subscription compared to the total offer reflects the high level of liquidity in the system.

**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.

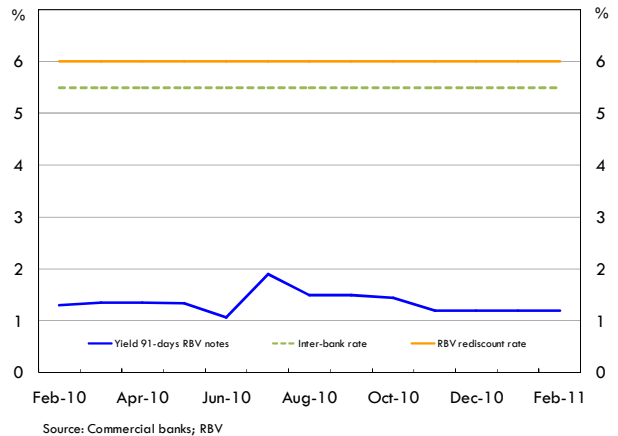
**Table 1: Amount Allotted (Millions of Vatu)**

Term	Amount Allotted
7 days	500
14 days	450
28 days	450
63 days	400
91 days	400

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

Term	End Mar. 2011	End Feb 2011
7 days	0.85	0.80
14 days	0.79	0.80
28 days	0.85	0.80
63 days	1.19	1.20
91 days	1.20	1.20

**Chart 8: Short-term Interest rates**



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

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
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
Feb-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
Lending Rates				
	Commercial	Personal	Housing	Agriculture
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
Feb-11	8.95-23.00	5.50-26.50	8.95-11.99	9.99-19.50

As shown in Table 3, commercial banks' range of deposit interest rates for time deposits remained the same as in the previous month. Likewise, commercial, housing, and agriculture lending rates remained unchanged.

### Tourism Update –February 2011

In February 2011, total non-resident visitor arrivals (air plus cruise-ship visitors) to Vanuatu rose 11 percent in the month and 71 percent over the year to 19,601 visitors. This was mainly driven by increased day-visitors (mainly cruise-ship) which rose strongly by 37 percent in the month to 14,976 visitors as P&O cruise visits (made by Pacific Dawn, Pacific Jewel, Pacific Pearl and Pacific Sun) to Port Vila rose. The visits also included en-route port calls to outer-island ports of Mystery Is, Wala Is, Champagne Bay and Luganville (Santo), mainly originating from Brisbane and Sydney ports. Compared to February 2010 (estimated two P&O cruise visits with 5,860 visitors), day visitor arrivals to Vanuatu rose by 156 percent.

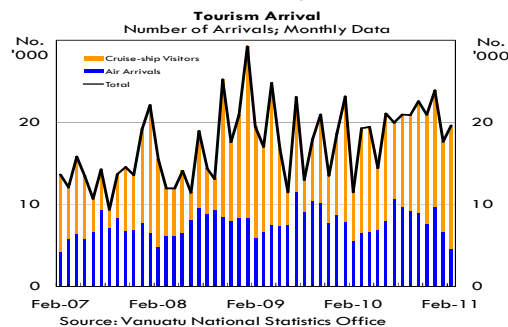
Air visitor arrivals declined 31 percent in the month to 4,625 visitors, a seasonally low month for arrivals, recording the lowest level since 4,234 visitors recorded in February 2007. Arrivals are likely to have been impacted by the effect of natural disasters such as flooding and severe tropical cyclone in Queensland, Australia, and the earthquake in Christchurch, New Zealand, that occurred in January to February 2011. The decline in the month was shown for all major markets of arrivals led by Australia, New Zealand, New Caledonia and North America, which more than offset the growth in arrivals from Other Pacific Countries, Europe, Other Countries and Japan.

Visitors arriving for holiday and visiting friends/relatives declined in the month, whilst growth was shown for visitors arriving for meetings/conferences. Compared to February 2010, air visitors declined by 17 percent, but arrivals to Luganville rose. The decline was shown for all major markets led by Other Pacific Countries, New Caledonia, Australia, New Zealand, North America, Other Countries and Europe.

Seasonally adjusted, total air visitor arrivals rose by 1 percent in the month. The average length of stay for visitors rose slightly to 9.9 days, up from 9.0 days in the previous month and down from 11.7 days in February 2010. Compared to the same period of 2010, the cumulative sum of arrivals for the period January-February 2011 depicted a 16 percent drop in air visitor arrivals and a 23 percent increase in cruise-ship arrivals. Overall, total non-resident visitor arrivals into the country grew in the period by 8 percent to 37,225 visitors compared to 34,573 visitors in the previous year.

### Chart 9: Tourism Arrivals

(Number of Arrivals; Monthly Data)



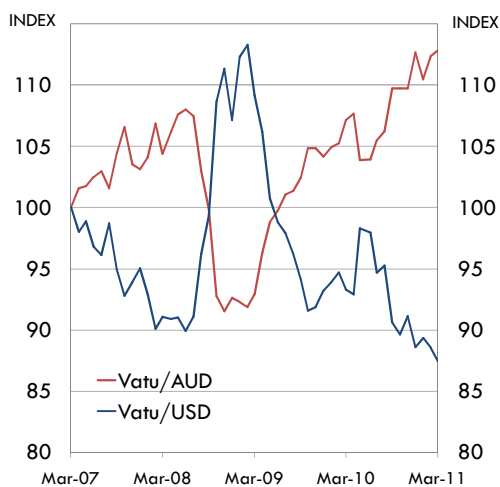
### Exchange Rate Developments- March 2011

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

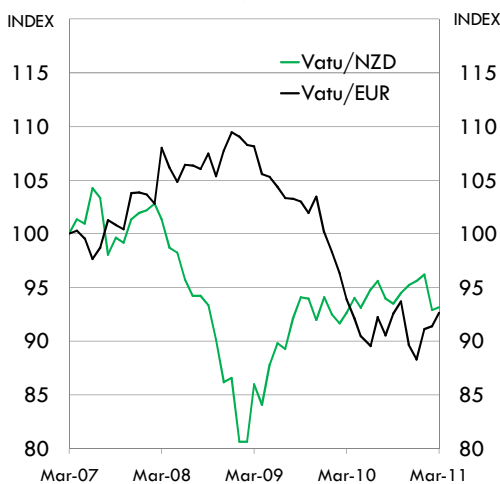
	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Mar-11	91.89	94.88	70.02	129.82
1 month ago	93.09	94.49	69.80	128.07
%▲	-1.3	0.4	0.3	1.4
3 months ago	93.15	94.72	71.84	123.75
%▲	-1.4	0.2	-2.5	4.9
12 months ago	98.05	90.06	69.60	131.55
%▲	-6.3	5.4	0.6	-1.3

Note: (-) appreciation of vatu

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



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



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

The depreciation of the vatu against the AUD continued to be driven by the robust outlook for the Australian economy in the context of sustained high commodity prices. This was supported by the release of data showing a strong increase in Australian retail sales, suggesting a further strengthening in consumer confidence. The Reserve

Bank of Australia indicated that it expected a temporary acceleration in inflation as a result of the impact of Tropical Cyclone Yasi, but that in the policy-relevant medium term, inflation was still expected to be close to target with current policy settings. Towards the end of the month, the AUD recorded record highs against the USD.

The US Federal Reserve reiterated its expectations that exceptionally accommodative monetary policy was likely to remain appropriate for an extended period, contrasting with increasing likelihood of policy rate increases by a number of other central banks, and contributing to the depreciation of the USD against a number of major currencies. Despite the unemployment rate recording a decline for four consecutive months, it remained close to 9 percent, and year-ended inflation excluding food and fuel remained at a very low level.

The EUR's appreciation in March was primarily driven by increasing investor expectations that the European Central Bank would act to remove monetary stimulus in the coming months in response to accelerating inflation. Whilst stress tests conducted in Irish banks highlighted the need for the Irish banking system to raise more capital, the results appeared broadly in line with investor expectations. Sovereign credit ratings were downgraded for Portugal and Greece during the month.

The appreciation of the NZD against the vatu occurred despite a 0.5 percentage point cut in the Reserve Bank of New Zealand's policy interest rate during the month. The move, in response to the February Christchurch earthquake, was described as pre-emptive and intended to counter a wider deterioration in business confidence. Overall, the currency was supported by high export commodity prices, in line with improving data from the US and Europe, increasing investor risk appetite.

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

End of Period	Feb-10	Nov-10	Jan-11	Feb-11	%Change		
					1 Month	3 months	12months
Foreign Assets	14986.2	15186.7	14868.4	15068.3	1.3	-0.8	0.5
Foreign Exchange 1/	14362.2	14560.5	14285.7	14488.7	1.4	-0.5	0.9
Reserve Position with IMF	382.2	382.2	358.6	358.6	0.0	-6.2	-6.2
SDR Holdings	241.8	244.0	224.0	220.9	-1.4	-9.5	-8.6
Claims on Government	621.0	1417.7	1419.4	1369.2	-3.5	-3.4	120.5
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	1961.1	1997.7	230.0	348.7	51.6	-82.5	-82.2
<b>Total Assets</b>	<b>17568.3</b>	<b>18602.1</b>	<b>18483.4</b>	<b>18555.1</b>	0.4	-0.3	5.6
Reserve Money	9906.8	10515.5	10669.2	10489.5	-1.7	-0.2	5.9
Currency outside Banks 3/	3545.2	4408.9	4198.7	4222.7	0.6	-4.2	19.1
Commercial Banks Cash	994.5	991.9	1083.5	1134.9	4.7	14.4	14.1
Commercial Banks Deposit with RBV	5367.2	5114.7	5387.1	5131.9	-4.7	0.3	-4.4
Foreign Liabilities 2/	2706.2	2715.1	2709.1	2501.3	-7.7	-7.9	-7.6
Government Deposits, of which	3156.9	2922.5	2702.8	3102.4	14.8	6.2	-1.7
Government contribution to RTP	382.2	382.2	358.6	358.6	0.0	-6.2	-6.2
RBV Notes	1082.5	1795.8	1746.7	1596.6	-8.6	-11.1	47.5
Other Liabilities	715.9	645.3	645.0	855.7	32.7	32.6	19.5
<b>TOTAL LIABILITIES</b>	<b>17568.3</b>	<b>18602.1</b>	<b>18483.4</b>	<b>18555.1</b>	0.4	-0.3	5.6

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	Feb-10	Nov-10	Jan-11	Feb-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	994.5	991.9	1083.5	1134.9	4.7	14.4	14.1
Deposits with RBV	5367.2	5114.7	5387.1	5131.9	-4.7	0.3	-4.4
RBV Notes	1082.5	1795.8	1746.7	1596.6	-8.6	-11.1	47.5
Foreign Assets, of which	28100.2	22863.1	20879.6	20036.3	-4.0	-12.4	-28.7
Claims on non-residents' banks	25353.3	2556.8	2564.5	2535.9	-1.1	-0.8	-90.0
Claims on Private sector	40257.3	43177.3	43840.4	44016.1	0.4	1.9	9.3
Claims on Government	587.0	686.7	786.3	786.3	0.0	14.5	33.9
Other claims 1/	114.8	43194.3	43847.1	44021.9	0.4	1.9	38261.3
Other Assets	3111.5	2127.8	43952.6	43952.6	0.0	1965.6	1312.6
<b>TOTAL ASSETS</b>	<b>79614.9</b>	<b>78107.4</b>	<b>77389.1</b>	<b>76476.9</b>	-1.2	-2.1	-3.9
Demand Deposits, of which	17307.0	17386.6	17520.3	17356.8	-0.9	-0.2	0.3
Foreign currency	9297.3	8145.7	8291.6	8280.1	-0.1	1.7	-10.9
Savings deposits, of which	4551.1	5443.4	5527.7	5498.6	-0.5	1.0	20.8
Foreign currency	406.7	383.1	400.2	386.3	-3.5	0.8	-5.0
Time deposits, of which	32162.0	29281.9	28354.9	28749.7	1.4	-1.8	-10.6
Foreign Currency	14097.8	11145.4	10031.8	10185.4	1.5	-8.6	-27.8
Foreign Liabilities, of which	10438.2	12325.7	12226.5	11212.8	-8.3	-9.0	7.4
Non residents Banks	3425.1	3084.3	3254.1	2561.4	-21.3	-17.0	-25.2
Government Deposits	1332.1	690.6	603.8	580.3	-3.9	-16.0	-56.4
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	13824.5	12979.2	13155.8	13078.3	-0.6	0.8	-5.4
<b>TOTAL LIABILITIES</b>	<b>79614.9</b>	<b>78107.4</b>	<b>77389.1</b>	<b>76476.6</b>	-1.2	-2.1	-3.9

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	Feb-10	Nov-10	Jan-11	Feb-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	33,702.9	23,009.0	20,812.3	21,390.4	2.8	-7.0	-36.5
Monetary Authorities (Net)	12,278.2	12,471.6	12,159.2	12,567.0	3.4	0.8	2.4
Commercial Banks (Net)	21,424.7	10,537.5	8,653.0	8,823.4	2.0	-16.3	-58.8
2. Net Domestic Assets	26,045.9	50,259.2	51,100.9	50,950.7	-0.3	1.4	95.6
(a) Domestic Credit	36,367.3	41,885.4	42,945.1	42,694.1	-0.6	1.9	17.4
(i) Net claims on government	(3,621.0)	(1,508.8)	(1,100.9)	(1,527.2)	-38.7	-1.2	57.8
Monetary Authorities	(3,408.4)	(1,504.8)	(1,283.4)	(1,733.2)	-35.1	-15.2	49.1
Commercial Banks	(212.6)	(3.9)	182.5	206.0	-12.9	5,320.8	196.9
(ii) Claims on Non financial Public enterprises (NFPE)	103.8	99.6	98.7	96.9	-1.7	-2.7	-6.6
(iii) Claims on Private Sector (1)	39,873.4	43,277.6	43,940.7	44,118.6	0.4	1.9	10.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	11.1	17.0	6.6	5.8	-13.0	-66.1	-47.9
(b) Other items (net)	(10,321.4)	8,373.8	8,155.8	8,256.6	1.2	-1.4	-180.0
3. Total Assets= Total Money Supply (M2)	<b>58,751.8</b>	<b>56,520.7</b>	<b>55,601.6</b>	<b>55,827.9</b>	0.4	-1.2	-5.0
(a) Money (M1)	22,038.7	21,795.4	21,718.9	21,579.5	-0.6	-1.0	-2.1
(i) Currency outside Banks	3,638.3	4,408.9	4,198.7	4,222.7	0.6	-4.2	16.1
(ii) Demand deposits	18,400.4	17,386.6	17,520.3	17,356.8	-0.9	-0.2	-5.7
(b) Quasi-money	36,713.1	34,725.3	33,882.6	34,248.3	1.1	-1.4	-6.7
(i) Saving Deposits	4,551.1	5,443.4	5,527.7	5,498.6	-0.5	1.0	20.8
(ii) Time Deposits	32,162.0	29,281.9	28,354.9	28,749.7	1.4	-1.8	-10.6

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Feb-10	Nov-10	Jan-11	Feb-11
1. Net Foreign Assets	940.1	315.1	(1,063.2)	578.1
Monetary authorities	372.2	(71.0)	(161.8)	407.7
Commercial Banks	567.9	386.0	(901.4)	170.4
2. Domestic Money creation	373.2	774.2	6.9	(150.2)
(a) Domestic credit	369.8	784.7	59.9	(251.0)
Net Claims on Government	(179.4)	582.5	82.1	(426.4)
Monetary Authorities (net)	(466.2)	682.8	53.7	(449.8)
Commercial Banks (net)	286.7	(100.4)	28.5	23.5
Claims on non financial public enterprises	(1.7)	0.8	3.3	(1.7)
Claims on Private sector	554.8	201.4	(16.4)	177.9
(b) Other Domestic factor	3.4	(10.5)	(53.0)	100.8
3. Money Supply creation (M4)	316.3	1,110.2	(950.4)	226.3
Money (M1)	1,039.5	914.7	(426.1)	(139.4)
Quasi-money	(723.1)	195.5	(524.2)	365.7

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

End of Period	Nov-10	Dec-10	Jan-11	Feb-11
Reserves	52.2	30.4	13.6	107.1
Domestic currency	52.24	30.38	13.61	107.13
Deposits with RBV	0	0.00	0.00	0.00
RBV Notes	0	0.00	0.00	0.00
Foreign Assets 1/	0	0.00	0.00	0.00
Claims on non-resident banks; of which	0	0.00	0.00	0.00
Vanuatu's offshore financial Inst. 2/				
Claims on non-resident nonbanks	0	0.00	0.00	0.00
Claims on Government	0	0.00	0.00	0.00
Claims on Municipalities	0	0.00	0.00	0.00
Claims on public enterprises	0	0.00	0.00	0.00
Claims on private sector	1025.09	1,061.10	1,083.06	1,093.58
Claims on other finan. Inst. 2/				
Inter-bank claims	44.82	37.92	32.04	34.42
Fixed Assets	18.59	18.29	17.86	17.49
Debit Items for collection	0	0.00	0.00	0.00
Unclassified assets	7.57	7.66	17.908	7.824
<b>TOTAL</b>	<b>1,148.3</b>	<b>1,155.3</b>	<b>1,164.48</b>	<b>1,260.45</b>
Demand Deposits	0.0	0.0	0.0	0.0
Local currency	0.0	0.00	0.00	0.00
Foreign currency	0.0	0.00	0.00	0.00
Savings deposits	-	0.00	0.00	0.00
Local currency	0	0.00	0.00	0.00
Foreign currency	0	0.00	0.00	0.00
Time deposits	183.3	186.9	181.87	187.15
Local currency	183.33	186.92	181.869	187.150
Foreign currency				
Foreign Liabilities	0.4	0.5	0.568	0.626
Non residents banks & Financial Institution	0.44	0.51	0.568	0.626
Non residents nonbanks				
Government Deposits				
Credit from monetary authorities				
Capital and fixed reserves	768.68	768.68	768.68	868.68
Profit and loss accounts	39.95	39.28	57.08	59.35
Reserves including Provisions	56.65	59.65	50.64	53.65
Inter-bank liabilities				
Unclassified Liabilities	99.22	287.23	105.637	91.002
<b>TOTAL</b>	<b>1148.3</b>	<b>1342.3</b>	<b>1164.48</b>	<b>1260.45</b>
Other items (net)	91.6	279.6	87.7	83.2
[Unclassified Liabilities [minus Unclassified Assets]				