



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC NEWS

### SUMMARY

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Issue 163

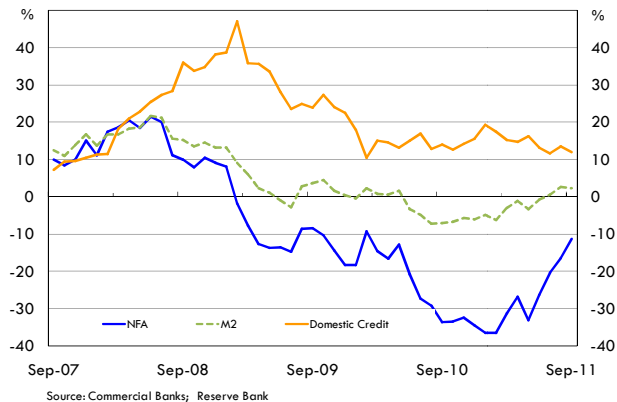
October 2011

### MONETARY SURVEY

Broad money supply (M2) increased by 1.4 percent in September. This resulted from increases by 1.1 percent and 1.3 in domestic credit and the banking system's net foreign assets (NFA), respectively. The growth rate of M2 for the year ending September 2011 was positive at 2.3 percent.

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

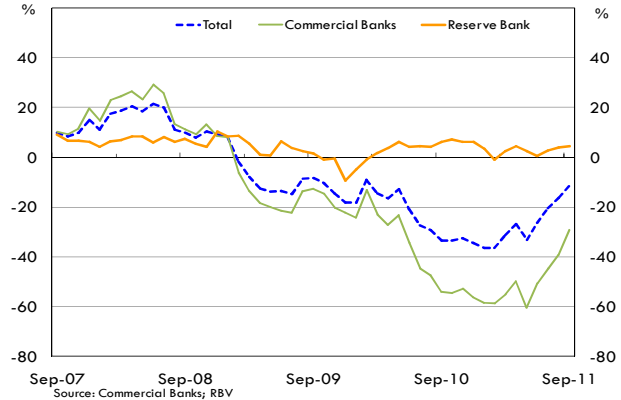
**Chart 1: Total Money Supply**  
(Percentage Change; Year-on-Year Growth)



### Determinants of Money Supply

In September, the increase in the banking system's NFA resulted from a 4.6 percent increase in the commercial banks' NFA, which outweighed a 0.5 percent decrease in the Reserve Bank NFA. The year-on-year growth rate of aggregate NFA remained negative at -11.3 percent.

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



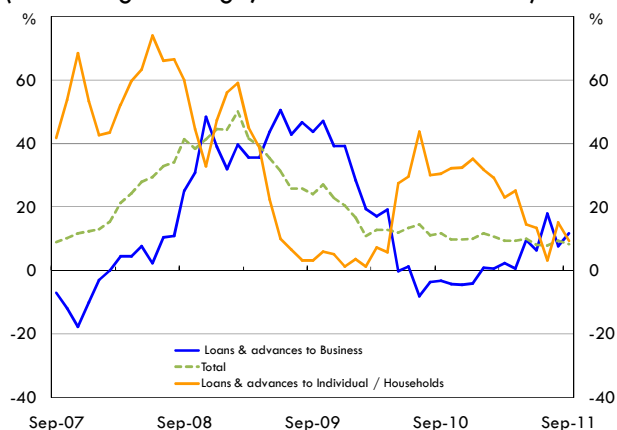
The slight decrease in the NFA of the Reserve Bank resulted from a small increase in its foreign assets by 0.1 percent outweighed by an increase of 3.1 percent in its foreign liabilities. The increase in foreign assets reflected an increase in the reserve position with the IMF and SDR holdings over the month. The year-on-year records showed an increase of 3.8 percent in the Reserve Bank's NFA position.

The increase in the commercial banks' NFA in September was driven by a 3.0 percent increase in their foreign assets combined with a 1.8 percent increase in its foreign liabilities. Over the year to September 2011, the growth in commercial banks' NFA remained negative at -29.3 percent.

Domestic credit increased by 1.1 percent in September, following a 1.3 percent increase the previous month. Growth over the year to September 2011 remained positive at 11.9 percent. The increases in September were driven by growth in net claims on the government and the claims in the private sector. The banking system claims on the private sector increased slightly by

0.4 percent, down from a 0.8 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)		
	Sep-10	Aug-11	Sep-11
Agriculture	808.8	678.7	677.6
Fisheries	94.3	44.8	46.6
Mining & Quarring	93.7	137.4	139.6
Manufacturing	1489.9	1846.4	1850.2
Distribution	3134.8	3281.9	3302.9
Tourism	2495.4	3997.2	3779.6
Entertainment & Catering	147.7	332.6	320.4
Transport	1695.9	1547.9	1563.7
Public Utilities	37.7	50.7	50.4
Construction	5460.0	7215.8	7203.2
a) Central Government	28.2	5.1	4.7
b) Public Corporation	24.4	19.8	21.3
Financial Institutions	219.3	622.2	581.4
Professional & Other Services	1858.7	3100.3	3223.0
Housing & Land Purchases	13042.8	14889.1	15033.6
Other Personal	7081.5	8152.7	7675.6
Miscellaneous	5585.1	1013.5	1695.0
<b>TOTAL</b>	<b>43,298.1</b>	<b>46,936.0</b>	<b>47,168.8</b>
of which Vatu:	35322.6	37048.2	37196.4

NB: Loans to Central Gvt does not include government Bonds

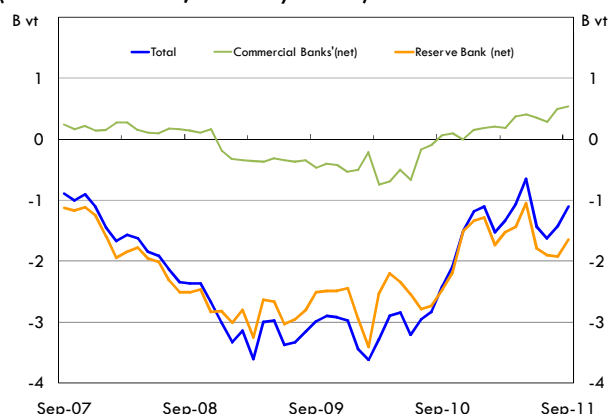
During the month, loans to individuals & households decreased by 3.3, whilst loans to businesses increased by 4.3 percent. Over the year to September, both loans to businesses and loans to individual & households recorded increases of 11.7 percent and 9.2 percent respectively.

Loans to municipalities decreased by 4.3 percent in September 2011, resulting in year-ended growth of -42.6 percent.

The banking system's net claims on the Government increased in September. The Reserve Bank's net claims on the Government increased by VT276.5 million over the month, resulting from a 8.0 percent decrease in Government deposits. On a year-on-year basis, the Reserve Bank's net claims on the Government showed an increase of VT825.7 million.

The commercial banks' net claims on the Government increased by VT42.6 million, resulting from an increase of 10.1 percent in the claims on government combined with an 11.7 percent increase in government deposits. Over the year to September, 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)

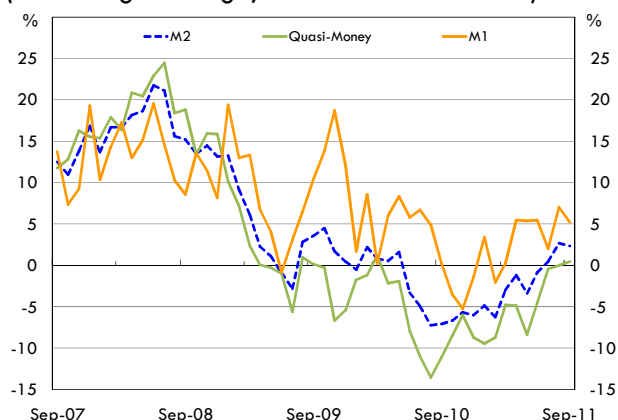


Source: Commercial Banks; RBV

**Measures of Money Supply**

The monthly increase of M2 stemmed from an increase of 2.7 percent in quasi-money, which outweighed a 0.7 percent decrease in narrow money (M1). Over the year ending September 2011, a 2.3 percent increase in M2 was driven by narrow money and quasi-money by 5.2 percent and 0.5 percent increases, respectively (Chart 5).

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

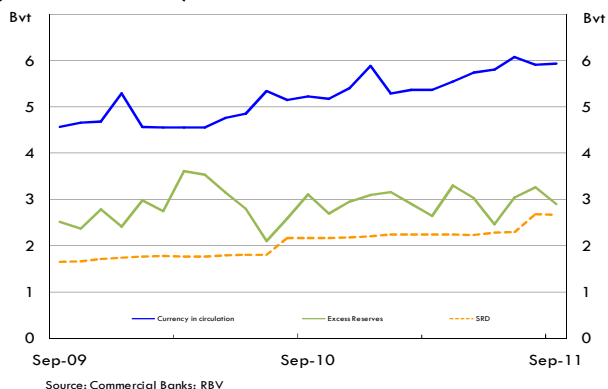


Source: Commercial Banks, RBV

**Reserve Money**

Reserve money<sup>1</sup> decrease by 2.9 percent in September but increased by 9.6 percent on a year basis. The monthly decrease was due to a decrease of 11.1 percent in excess reserves and a 0.5 percent increase in currency in circulation.

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



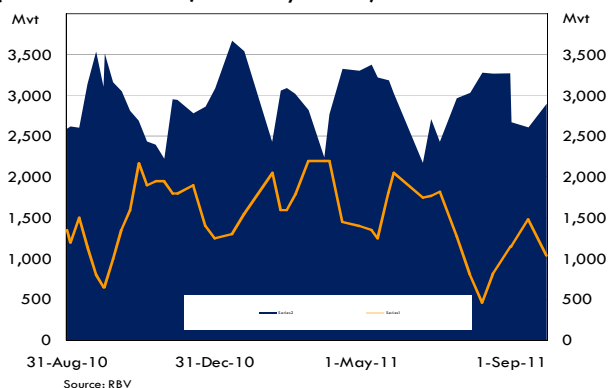
Source: Commercial Banks; RBV

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

The Bank conducted four Open Market Operations in October 2011 where it issued VT2.94 billion compared to VT2.3 billion over the previous month.

The total tender for those four issues was under-subscribed by VT460 million. The under-subscription in October reflected movement in liquidity within the banking system and the commercial banks willingness to hold more liquidity for credit financing.

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



Source: RBV

Total maturity for the month was VT2.13 billion leaving outstanding notes at VT2.04 million at the

end of October compared to VT1.04 million at the end of September.

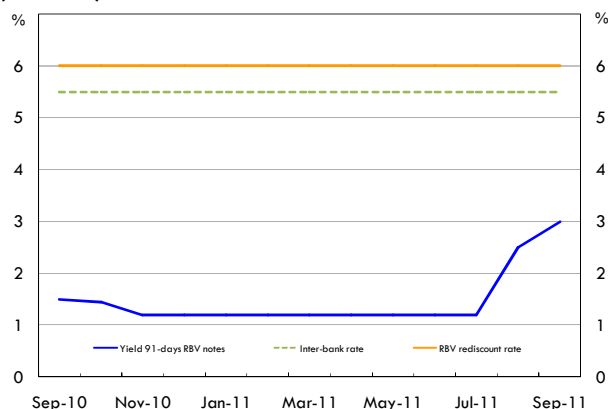
**Table 2: Amount Allotted (Millions of Vatu)**

Term	Amount Allotted
7 days	700
14 days	650
28 days	380
63 days	430
91 days	120

**Table 3: Yields on RBV Notes (Percent)**

Term	End October 2011	End Sep. 2011
7 days	1.92	1.95
14 days	2.08	1.20
28 days	2.25	2.15
63 days	3.37	2.40
91 days	3.5	3.00

**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)**

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

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

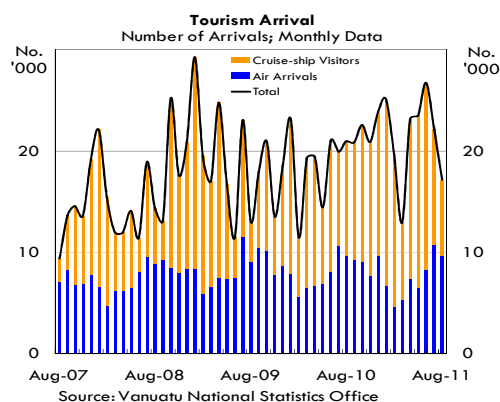
  

Lending Rates				
	Commercial	Personal	Housing	Agriculture
May-11	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
June-11	8.95-23.00	8.95-19.50	8.90-13.00	9.99-19.50
July-11	8.95-23.00	5.50-26.50	8.95-11.99	9.99-19.50

### August 2011 Monthly Tourism Update

In August 2011, total non-resident visitor arrivals into the country declined 23 percent in the month by 5,007 visitors to 17,133 visitors (an 18 percent decline over the year). This was attributed to a fall in the number of cruise ships from the previous month resulting in a 34 percent drop in cruise-ship (day) visitors to 7,511. Despite remaining within the holiday season, air arrivals for holiday, visiting friends and families, and stopovers declined 10 percent in the month to 9,622 visitors while arrivals for meeting/conferences increased. The declines were seen in Australia, New Zealand, New Caledonia, Other Pacific Countries and North America, while there were more visitors from Europe, Japan and Other Countries. Air arrival fell 0.1 percent over August 2010 mainly led by Australia, Other Pacific Countries, and North America while visitors from New Caledonia, New Zealand and Europe increased, mainly those on holiday. The average length of stay for air visitors remains close to 9 days as in the previous month. Compared to the same period of 2010, the cumulative sum of the period January-August 2011 showed a 14 percent increase in total non-resident visitors arrival to 170,138 visitors with cruise visitors up by 26 percent, however air visitor arrivals were down 4 percent (Source: Vanuatu National Statistics Office)

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



### Exchange Rate Developments

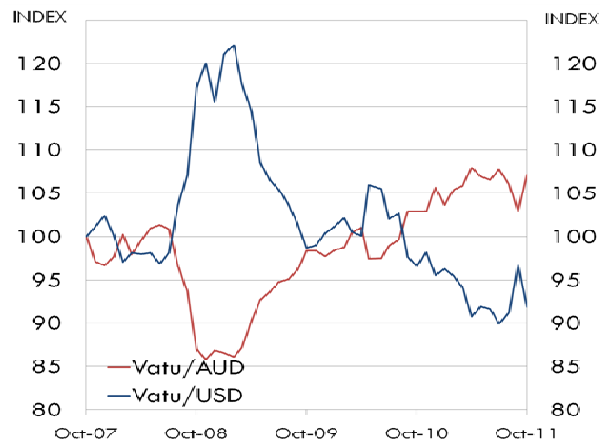
The exchange rate developments of the vatu vis-à-vis its major trading currencies for the month of October are shown in the following table and charts.

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Oct-11	89.60	96.00	73.51	126.80
1 month ago	94.32	92.24	72.69	128.22
%▲	-5.0	4.1	1.1	-1.1
3 months ago	87.72	96.54	76.41	125.73
%▲	2.1	-0.6	-3.8	0.9
12 months ago	94.21	92.23	71.01	131.28
%▲	-4.9	4.1	3.5	-3.4

Note: (-) appreciation of vatu

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

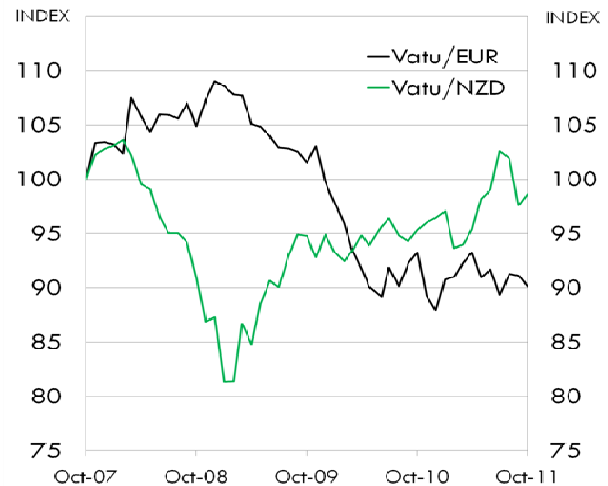
**Figure 10: Exchange Rate against USD and AUD**  
(Indices; October 2007=100)



A significant strengthening of the USD in September's *Financial and Economic News* reflected investor's views of the US as a safe-haven when faced with uncertainty over the future prospects of the global economy. In contrast, over the month of October, the USD depreciated, reflecting a change in sentiment as investors grew more comfortable with risk-sensitive assets given an increasing likelihood of a solution being found to the eurozone crisis. Equally, during the month news reached the press that the Federal Reserve may downgrade US growth forecasts for the next three years. Given a commitment to avoiding deflation, this increased the likelihood of a future round of quantitative easing, weighing on the currency. During the month, unemployment figures also showed no improvement over the previous month, remaining high at 9.0 percent.

During the month the AUD made gains against the USD. Again, this reflected a growing belief that policy makers would find a solution to eurozone's debt problems, increasing the risk appetite of investors. Reinforcing this, a series of data releases from China on manufacturing, industrial production and retail sales showed better than expected results, providing confidence for the future prospects of Australian export growth. On the domestic front, unemployment fell from a 10-month high to 5.2% while trade balance statistics suggest improving prospects for Australian exports. All of which contributed to the strengthening of the currency.

**Figure 11: Exchange Rate against NZD and EUR**  
(Indices; October 2007=100)



In October as with the AUD, the NZD was also affected by a change in risk sentiments with a potential euro zone bailout package and strong manufacturing statistics from China. Meanwhile Statistics New Zealand released data showing that exports had strengthened over the year from September.

Euro zone sovereign debt continued to see revisions by rating agencies, with downgrades for both Spain and Italy. By the end of October, progress was made towards confirming a Greek bailout package. However, doubts persisted over the ability to raise sufficient funds, compounded by uncertainty over whether Greece would accept the terms of any agreement. During the month, euro zone unemployment reached its highest level since the beginning of the financial crisis, while the Manufacturing Purchasing Managers' Index, pointed towards greater contractions in the manufacturing sector.

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

End of Period	Sep-10	Jun-11	Aug-11	Sep-11	%Change		
					1 Month	3 months	12 months
Foreign Assets	15312.0	15369.3	15607.8	15619.8	0.1	1.6	2.0
Foreign Exchange 1/	14686.1	14795.7	15034.5	15027.4	0.0	1.6	2.3
Reserve Position with IMF	382.2	356.2	357.7	369.6	3.3	3.7	-3.3
SDR Holdings	243.6	217.4	215.6	222.8	3.3	2.5	-8.5
Claims on Government	1417.9	1517.9	1517.6	1517.6	0.0	0.0	7.0
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	2037.1	2029.4	1979.1	1946.1	-1.7	-4.1	-4.5
<b>Total Assets</b>	<b>18766.9</b>	<b>18916.7</b>	<b>19104.5</b>	<b>19083.6</b>	-0.1	0.9	1.7
Reserve Money	10479.5	10520.0	11202.1	11485.2	2.5	9.2	9.6
Currency outside Banks 3/	4178.1	4557.5	4506.0	4693.8	4.2	3.0	12.3
Commercial Banks Cash	1038.3	1238.2	1390.8	1230.6	-11.5	-0.6	18.5
Commercial Banks Deposit with RBV	5263.1	4724.3	5305.3	5560.9	4.8	17.7	5.7
Foreign Liabilities 2/	2715.0	2467.4	2470.6	2547.7	3.1	3.3	-6.2
Government Deposits, of which	3890.0	3305.4	3440.5	3164.1	-8.0	-4.3	-18.7
Government contribution to RTP	382.2	356.2	357.7	369.6	3.3	3.7	-3.3
RBV Notes	647.8	1816.8	1147.3	1036.1	-9.7	-43.0	59.9
Other Liabilities	1034.5	807.0	844.0	850.5	0.8	5.4	-17.8
<b>TOTAL LIABILITIES</b>	<b>18766.9</b>	<b>18916.7</b>	<b>19104.5</b>	<b>19083.6</b>	-0.1	0.9	1.7

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	Sep-10	Jun-11	Aug-11	Sep-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	1038.3	1238.2	1390.8	1230.6	-11.5	-0.6	18.5
Deposits with RBV	5263.1	4724.3	5305.3	5560.9	4.8	17.7	5.7
RBV Notes	647.8	1816.8	1147.3	1036.1	-9.7	-43.0	59.9
Foreign Assets, of which	22778.2	18185.1	17507.8	18024.3	3.0	-0.9	-20.9
Claims on non-residents' banks	2513.9	2503.3	2500.3	2579.2	3.2	3.0	2.6
Claims on Private sector	42473.3	45639.7	46632.5	46809.3	0.4	2.6	10.2
Claims on Government	686.7	986.3	986.3	1086.3	10.1	10.1	58.2
Other claims 1/	113.2	95.9	202.7	198.6	-2.0	107.0	75.4
Other Assets	3715.0	3516.2	3560.7	5217.7	46.5	48.4	40.4
<b>TOTAL ASSETS</b>	<b>76715.6</b>	<b>76202.7</b>	<b>76733.3</b>	<b>79163.9</b>	3.2	3.9	3.2
Demand Deposits, of which	17030.2	17284.1	17959.2	17623.4	-1.9	2.0	3.5
Foreign currency	7584.8	8506.6	8602.3	8552.0	-0.6	0.5	12.8
Savings deposits, of which	5226.6	5928.1	5344.5	5816.1	8.8	-1.9	11.3
Foreign currency	406.6	369.5	371.0	438.1	18.1	18.6	7.8
Time deposits, of which	28962.0	27499.3	28095.4	28535.7	1.6	3.8	-1.5
Foreign Currency	10889.8	8509.5	8497.3	8516.0	0.2	0.1	-21.8
Foreign Liabilities, of which	12210.7	10933.8	10362.7	10550.6	1.8	-3.5	-13.6
Non residents Banks	3168.3	1852.4	1786.3	1800.6	0.8	-2.8	-43.2
Government Deposits	622.5	634.9	489.9	547.4	11.7	-13.8	-12.1
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	12663.6	13922.4	14481.4	16090.3	11.1	15.6	27.1
<b>TOTAL LIABILITIES</b>	<b>76715.6</b>	<b>76202.7</b>	<b>76733.3</b>	<b>79163.9</b>	3.2	3.9	3.2

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	Sep-10	Jun-11	Aug-11	Sep-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	23,164.5	20,153.2	20,282.3	20,545.8	1.3	1.9	-11.3
Monetary Authorities (Net)	12,596.9	12,901.9	13,137.2	13,072.1	-0.5	1.3	3.8
Commercial Banks (Net)	10,567.5	7,251.3	7,145.1	7,473.7	4.6	3.1	-29.3
2. Net Domestic Assets	32,232.4	35,115.7	35,622.7	36,123.3	1.4	2.9	12.1
(a) Domestic Credit	41,010.1	44,410.6	45,415.8	45,902.8	1.1	3.4	11.9
(i) Net claims on government	(2,407.9)	(1,436.1)	(1,426.5)	(1,107.5)	22.4	22.9	54.0
Monetary Authorities	(2,472.1)	(1,787.5)	(1,922.9)	(1,646.5)	14.4	7.9	33.4
Commercial Banks	64.2	351.4	496.4	538.9	-8.6	-53.4	-739.7
(ii) Claims on Non financial Public enterprises (NFPE)	95.9	89.3	91.9	88.3	-3.9	-1.2	-8.0
(iii) Claims on Private Sector (1)	43,304.8	45,750.7	46,740.1	46,912.1	0.4	2.5	8.3
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	17.3	6.6	10.4	9.9	-4.3	49.9	-42.6
(b) Other items (net)	(8,777.6)	(9,294.8)	(9,793.0)	(9,779.6)	-0.1	5.2	11.4
3. Total Assets= Total Money Supply (M2)	<b>55,396.9</b>	<b>55,269.0</b>	<b>55,905.1</b>	<b>56,669.0</b>	1.4	2.5	2.3
(a) Money (M1)	21,208.3	21,841.5	22,465.2	22,317.2	-0.7	2.2	5.2
(i) Currency outside Banks	4,178.1	4,557.5	4,506.0	4,693.8	4.2	3.0	12.3
(ii) Demand deposits	17,030.2	17,284.1	17,959.2	17,623.4	-1.9	2.0	3.5
(b) Quasi-money	34,188.6	33,427.4	33,439.8	34,351.9	2.7	2.8	0.5
(i) Saving Deposits	5,226.6	5,928.1	5,344.5	5,816.1	8.8	-1.9	11.3
(ii) Time Deposits	28,962.0	27,499.3	28,095.4	28,535.7	1.6	3.8	-1.5

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Sep-10	Jun-11	Aug-11	Sep-11
1. Net Foreign Assets	(1,091.3)	895.5	129.1	779.3
Monetary authorities	95.8	141.0	235.4	78.8
Commercial Banks	(1,187.1)	754.6	(106.2)	700.5
2. Domestic Money creation	2,032.5	(875.8)	507.0	937.3
(a) Domestic credit	998.0	(757.9)	1,005.2	1,081.6
Net Claims on Government	421.7	(786.7)	9.6	517.5
Monetary Authorities (net)	265.5	(734.0)	(135.5)	258.3
Commercial Banks (net)	156.3	(52.7)	145.0	259.2
Claims on non financial public enterprises	(0.8)	(1.7)	2.5	(0.3)
Claims on Private sector	571.9	29.4	989.4	559.8
(b) Other Domestic factor	1,034.5	(117.9)	(498.2)	(144.3)
3. Money Supply creation (M4)	941.2	19.8	636.1	1,716.6
Money (M1)	218.4	(186.8)	623.7	768.7
Quasi-money	722.7	206.5	12.4	947.9