



# 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

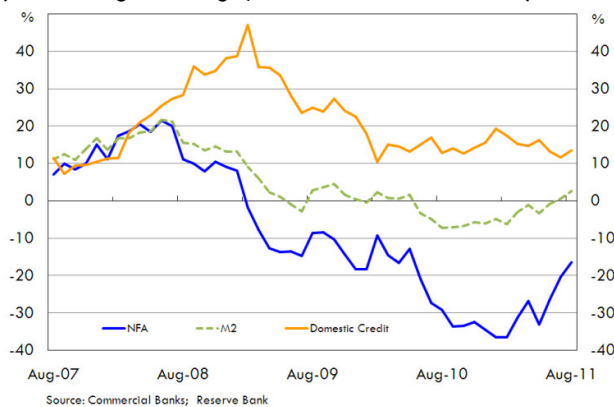
September 2011

### MONETARY SURVEY

Broad money supply (M2) increased by 1.7 percent in August. This resulted from increases by 1.3 percent and 2.6 percent in domestic credit and the banking system's net foreign assets (NFA), respectively. The growth rate of M2 for the year ending August 2011 was positive at 2.7 percent.

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

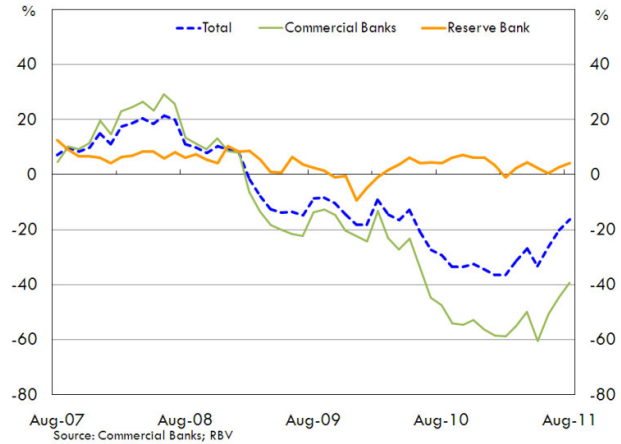
**Chart 1: Total Money Supply**  
(Percentage Change; Year-on-Year Growth)



### Determinants of Money Supply

In August, the increase in the banking system's NFA resulted from increases by 5.5 percent and 1.1 percent in the commercial banks' NFA the Reserve Bank's NFA respectively. However, the year-on-year growth rate of aggregate NFA remained negative at -16.4 percent.

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



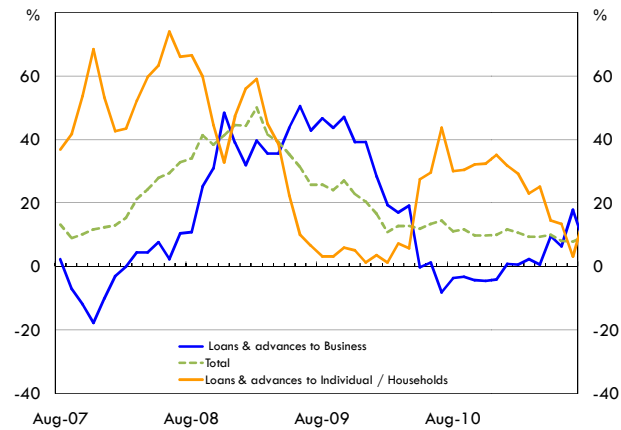
The increase in the NFA of the Reserve Bank resulted from an increase in its foreign assets by 1.0 percent outweighing a 0.1 percent increase in its foreign liabilities. The increase in foreign assets reflected net inflows of foreign exchange during the month. The year-on-year records showed an increase of 5.1 percent in the Reserve Bank's NFA position.

The increase in the commercial banks' NFA in August was driven by a 3.0 percent increase in their foreign assets outweighing a 1.4 percent increase in its foreign liabilities. Over the year to August 2011, the growth in commercial banks' NFA remained negative at -39.2 percent.

Domestic credit increased by 1.3 percent in August, following a 0.9 percent increase the previous month. Growth over the year to August 2011 was 13.5 percent. The increase in August was attributed to claims on the private sector, claim on non-financial public enterprises and claims on municipalities. The banking system's net claims on Government also showed an increase over the month. The banking system claims on the private sector increased by 0.8 percent over the month,

down from a 1.3 percent increase recorded during July.

**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)		
	Aug-10	Jul-11	Aug-11
Agriculture	834.0	669.4	678.7
Fisheries	54.7	44.0	44.8
Mining & Quarrying	92.8	135.2	137.4
Manufacturing	1538.1	1828.7	1846.4
Distribution	3187.1	3321.8	3281.9
Tourism	2851.7	3974.8	3997.2
Entertainment & Catering	145.6	334.5	332.6
Transport	1714.2	1557.8	1547.9
Public Utilities	38.1	36.2	50.7
Construction	5428.3	7076.2	7215.8
a) Central Government	25.0	0.0	0.0
b) Public Corporation	24.4	18.7	18.7
Financial Institutions	200.9	621.7	621.7
Professional & Other Services	1757.0	2889.9	2889.9
Housing & Land Purchases	13421.4	14552.8	14552.8
Other Personal	7097.1	8174.5	8174.5
Miscellaneous	4954.1	1233.4	1545.1
<b>TOTAL</b>	<b>43,364.3</b>	<b>46,469.5</b>	<b>46,936.1</b>
of which Vatu:	35342.4	36849.3	37048.2

NB: Loans to Central Gvt does not include government Bonds

During the month, loans to individuals & households and loans to businesses increased by 1.2 percent and 0.3 percent, respectively. Over the year to August, both loans to businesses and loans to individual & households recorded increases of 15.2 percent and 7.6 percent respectively.

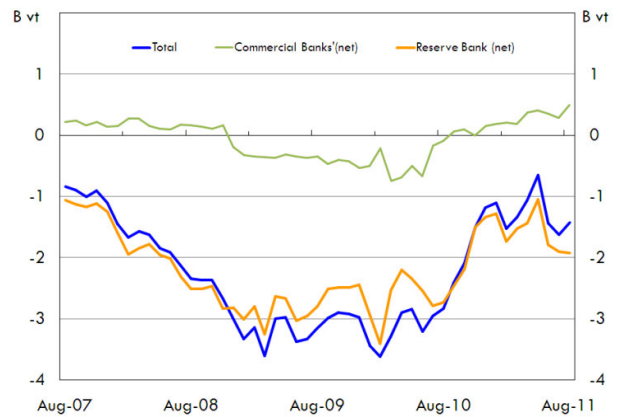
Loans to municipalities decreased by 95.1 percent in August 2011 to VT10.4 million, resulting in year-ended growth of -13.9 percent.

The banking system's net claims on the Government increased in August. The Reserve Bank's net claims on the Government increased by VT18.1 million over the month, resulting from a 0.5 percent increase in Government deposits. On a year-on-year basis, the Reserve Bank's net claims on the

Government showed an increase of VT814.7 million.

The commercial banks' net claims on the Government increased by VT216.6 million in the month, resulting entirely from a decrease in Government deposits. Over the year to August, the aggregate banking system's net claims on the Government increased by VT1.4 billion (Chart 4).

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

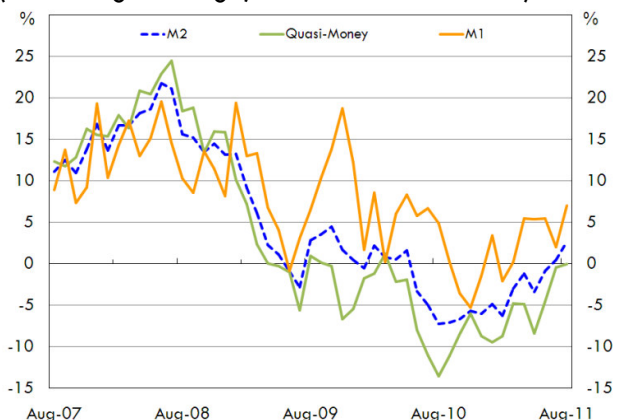


Source: Commercial Banks; RBV

**Measures of Money Supply**

The monthly increase of M2 stemmed from increases in narrow money (M1) and quasi-money by 4.3 percent and 0.1 percent, respectively. Over the year ending August 2011, a 2.7 percent increase in M2 was driven by narrow money, which increased by 7.0 percent, whilst quasi money noted a decrease of 0.1 percent (Chart 5).

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



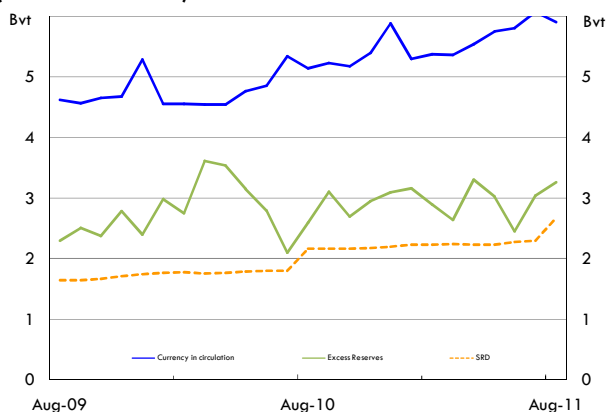
Source: Commercial Banks, RBV

The month-on-month increase in M1 was driven by a 6.7 percent increase in demand deposits, which outweighed a 4.5 percent decrease in currency outside banks. The increase in demand deposits stemmed from increases of 6.0 percent and 7.3 percent in its foreign currency and local currency components respectively.

**Reserve Money**

Reserve money<sup>1</sup> increased by 3.9 percent in August, and by 19.7 percent over the year to August. The monthly increase was due to an increase of 7.5 percent, whilst currency in circulation noted a decrease of 2.7 percent.

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



Source: Commercial Banks; RBV

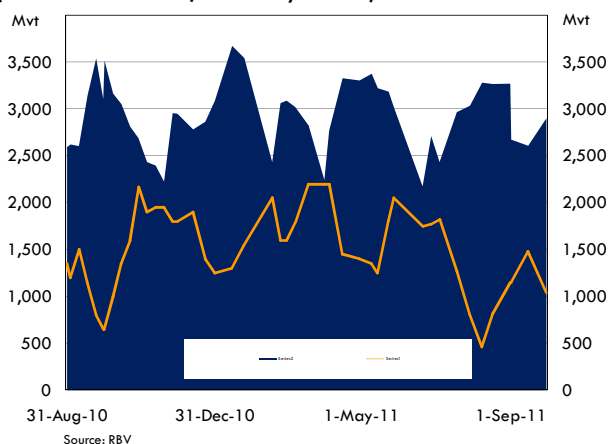
**Open Market Operations (OMO) – September 2011**

The Bank conducted three Open Market Operations in September 2011 where it issued VT2.3 billion compared to VT1.8 billion over the previous month.

The total tender for those two issues was under-subscribed by VT346 million at VT1.954 billion compared to an over-subscription of VT500 million the previous month. The under-subscription in September reflected movement in liquidity within the banking system and the commercial banks willingness to hold more liquidity for credit financing in the pipeline.

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

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



Source: RBV

Total maturity for the month was VT1.53 billion leaving outstanding notes at VT1.04 million at the end of September compared to VT1.15 billion at the end of August.

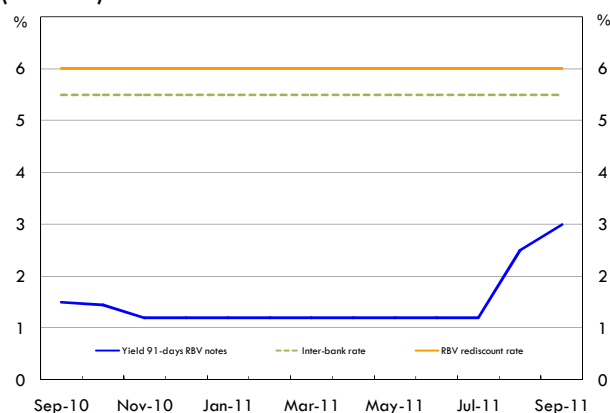
**Table 2: Amount Allotted (Millions of Vatu)**

Term	Amount Allotted
7 days	660
14 days	260
28 days	250
63 days	100
91 days	150

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

Term	End September 2011	End Aug. 2011
7 days	1.95	1.30
14 days	1.20	1.77
28 days	2.15	1.93
63 days	2.40	2.45
91 days	3.00	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
Jun-11	0.5-5.00	1.50-7.50	1.60-7.00	2.50-9.80
July-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
Aug-11	0.5-5.00	1.50-5.75	1.50-6.50	2.50-8.00
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Jun-11	8.95-23.00	5.5-26.50	8.90-13.00	9.99-19.50
July-11	8.95-23.00	8.95-19.50	8.90-13.00	9.99-19.50
Aug-11	8.95-23.00	5.50-26.50	8.95-11.99	9.99-19.50

**Exchange Rate Developments**

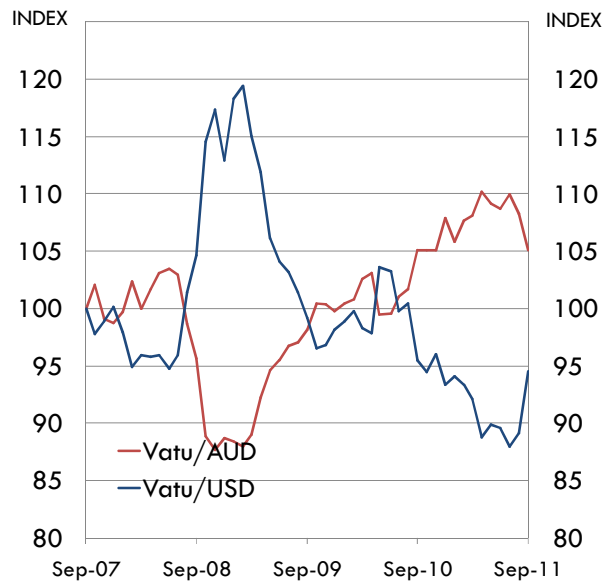
The exchange rate developments of the vatu vis-à-vis its major trading currencies for the month of September are shown in the following table and charts.

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Sep-11	94.32	92.24	72.69	128.22
1 month ago	88.93	95.06	75.91	128.49
%▲	6.1	-3.0	-4.2	-0.2
3 months ago	89.39	95.45	73.77	129.04
%▲	5.5	-3.4	-1.5	-0.6
12 months ago	92.23	92.25	70.24	129.75
%▲	-1.0	0.0	3.5	-1.2

Note: (-) appreciation of vatu

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

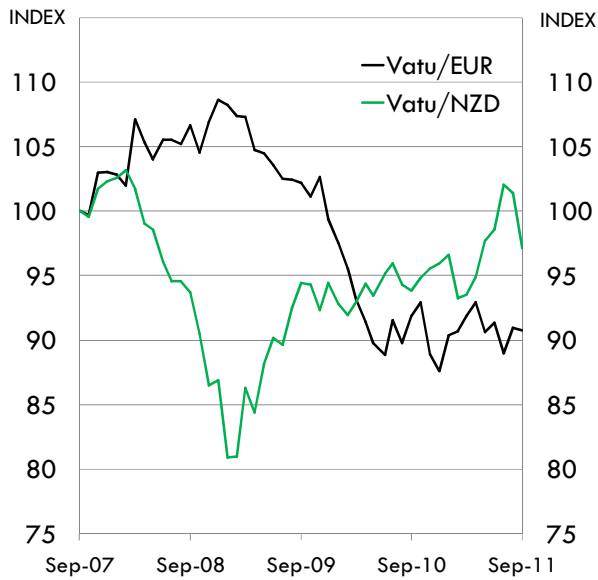
**Figure XX: Exchange Rate against USD and AUD**  
(Indices; September 2007=100)



The appreciation of the USD against the vatu in September continued to be driven by an increase in investor risk aversion in the context of higher global uncertainty, prompting the purchase of USD assets. In an effort to lower borrowing costs, the Federal Reserve announced that it would be increasing the average maturity of its asset holdings through the purchase of US\$400 million in longer-dated securities and the sale of those closer to maturity under 'Operation Twist'.

During September, the AUD depreciated to below parity with the USD. Although prices in general remained high, there was some moderation in the prices for major Australian exports, which weighed on the currency. Figures showing an increase in the Australian unemployment rate reinforced perceptions that the Reserve Bank of Australia would allow a more accommodative monetary policy stance in coming months, and contributed to the depreciation of the AUD during the month. As in previous months, downward pressure on the currency also came from the general decline in risk appetite amongst investors.

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



New Zealand's sovereign debt was downgraded by Fitch and Standard & Poor's at the end of the month, citing the need for earthquake-related spending and an expected deterioration in the

country's external position. Data released during the month showed a widening of the trade deficit, with the finance minister indicating that export earnings in the near future may be less than were previously expected. GDP data released during the month showed that growth slowed markedly during the second quarter. As with the AUD, the NZD was also affected by investors' decisions to move towards lower-risk, lower-yielding assets.

Despite progress made towards a regional agreement aimed at stabilising the situation, the ongoing sovereign debt crisis continued to be a major fact driving the depreciation of the EUR. The increase in regional and global uncertainty combined with slowing growth in core euro member states has further reduced investors' expectations that the European Central Bank may continue to increase its policy interest rates. During the months, ratings agencies cut the sovereign ratings for Italy.

## MONETARY AND FINANCIAL STATISTICS

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Aug-10	May-11	Jul-11	Aug-11	%Change		
					1 Month	3 months	12months
Foreign Assets	15392.9	15235.2	15460.7	15607.8	1.0	2.4	1.4
Foreign Exchange 1/	14765.6	14661.1	14895.1	15034.5	0.9	2.5	1.8
Reserve Position with IMF	382.2	356.5	351.2	357.7	1.8	0.3	-6.4
SDR Holdings	245.1	217.5	214.3	215.6	0.6	-0.9	-12.0
Claims on Government	618.9	1517.9	1517.9	1517.6	0.0	0.0	145.2
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
0/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	2128.3	2029.2	2002.0	1979.1	-1.1	-2.5	-7.0
<b>Total Assets</b>	<b>18140.1</b>	<b>18782.3</b>	<b>18980.6</b>	<b>19104.5</b>	0.7	1.7	5.3
Reserve Money	9889.5	10883.8	11383.4	11202.1	-1.6	2.9	13.3
Currency outside Banks 3/	4002.2	4543.6	4718.1	4506.0	-4.5	-0.8	12.6
Commercial Banks Cash	1139.5	1157.4	1342.9	1390.8	3.6	20.2	22.0
Commercial Banks Deposit with RBV	4747.7	5182.8	5322.4	5305.3	-0.3	2.4	11.7
Foreign Liabilities 2/	2891.8	2474.2	2467.4	2470.6	0.1	-0.1	-14.6
Government Deposits, of which	3356.5	2571.4	3422.7	3440.5	0.5	33.8	2.5
Government contribution to RTP	382.2	356.5	351.2	357.7	1.8	0.3	-6.4
RBV Notes	1346.5	2045.8	808.2	1147.3	42.0	-43.9	-14.8
Other Liabilities	655.8	807.2	898.9	844.0	-6.1	4.6	28.7
<b>TOTAL Liabilities</b>	<b>18140.1</b>	<b>18782.3</b>	<b>18980.6</b>	<b>19104.5</b>	0.7	1.7	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	Aug-10	May-11	Jul-11	Aug-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	1139.5	1157.4	1342.9	1390.8	3.6	20.2	22.0
Deposits with RBV	4747.7	5182.8	5322.4	5305.3	-0.3	2.4	11.7
RBV Notes	1346.5	2045.8	808.2	1147.3	42.0	-43.9	-14.8
Foreign Assets, of which	24338.8	16950.3	16992.5	17507.8	3.0	3.3	-28.1
Claims on non-residents' banks	3247.1	2508.5	2439.8	2500.3	2.5	-0.3	-23.0
Claims on Private sector	41887.5	45614.3	46242.4	46632.5	0.8	2.2	11.3
Claims on Government	686.7	986.3	986.3	986.3	0.0	0.0	43.6
Other claims 1/	108.8	96.5	93.9	202.7	115.9	110.0	86.3
Other Assets	2825.9	3603.7	3478.8	3560.7	2.4	-1.2	26.0
<b>TOTAL ASSETS</b>	<b>77081.5</b>	<b>75637.0</b>	<b>75267.4</b>	<b>76733.3</b>	1.9	1.4	-0.5
Demand Deposits, of which	16987.7	17484.7	16830.3	17959.2	6.7	2.7	5.7
Foreign currency	7732.7	8293.4	8111.7	8602.3	6.0	3.7	11.2
Savings deposits, of which	4808.9	5694.1	5737.3	5344.5	-6.8	-6.1	11.1
Foreign currency	374.1	365.4	370.2	371.0	0.2	1.5	-0.8
Time deposits, of which	28656.9	27526.7	27666.7	28095.4	1.5	2.1	-2.0
Foreign Currency	10735.9	8449.9	8556.8	8497.3	-0.7	0.6	-20.9
Foreign Liabilities, of which	12584.1	10453.5	10219.3	10362.7	1.4	-0.9	-17.7
Non residents Banks	3016.6	1980.5	1870.8	1786.3	-4.5	-9.8	-40.8
Government Deposits	778.8	582.2	706.6	489.9	-30.7	-15.9	-37.1
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	13265.1	13895.6	14107.1	14481.4	2.7	4.2	9.2
<b>TOTAL LIABILITIES</b>	<b>77081.5</b>	<b>75637.0</b>	<b>75267.4</b>	<b>76733.3</b>	1.9	1.4	-0.5

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	Aug-10	May-11	Jul-11	Aug-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	24,255.8	19,257.7	19,766.5	20,282.3	2.6	5.3	-16.4
Monetary Authorities (Net)	12,501.1	12,760.9	12,993.3	13,137.2	1.1	2.9	5.1
Commercial Banks (Net)	11,754.7	6,496.8	6,773.2	7,145.1	5.5	10.0	-39.2
2. Net Domestic Assets	30,200.0	35,991.5	35,186.0	35,622.7	1.2	-1.0	18.0
(a) Domestic Credit	40,012.1	45,168.4	44,821.2	45,415.8	1.3	0.5	13.5
(i) Net claims on government	(2,829.7)	(649.4)	(1,625.0)	(1,426.5)	12.2	-119.7	49.6
Monetary Authorities	(2,737.6)	(1,053.5)	(1,904.8)	(1,922.9)	-1.0	-82.5	29.8
Commercial Banks	(92.1)	404.1	279.8	496.4	-77.4	-22.8	639.1
(ii) Claims on Non financial Public enterprises (NFPE)	96.8	91.0	88.6	91.9	3.7	0.9	-5.1
(iii) Claims on Private Sector (1)	42,732.9	45,721.3	46,352.3	46,740.1	0.8	2.2	9.4
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	12.1	5.5	5.3	10.4	95.1	88.6	-13.9
(b) Other items (net)	(9,812.1)	(9,176.9)	(9,635.3)	(9,793.0)	1.6	6.7	-0.2
3. Total Assets= Total Money Supply (M2)	<b>54,455.8</b>	<b>55,249.2</b>	<b>54,952.4</b>	<b>55,905.1</b>	1.7	1.2	2.7
(a) Money (M1)	20,989.9	22,028.3	21,548.4	22,465.2	4.3	2.0	7.0
(i) Currency outside Banks	4,002.2	4,543.6	4,718.1	4,506.0	-4.5	-0.8	12.6
(ii) Demand deposits	16,987.7	17,484.7	16,830.3	17,959.2	6.7	2.7	5.7
(b) Quasi-money	33,465.9	33,220.9	33,404.0	33,439.8	0.1	0.7	-0.1
(i) Saving Deposits	4,808.9	5,694.1	5,737.3	5,344.5	-6.8	-6.1	11.1
(ii) Time Deposits	28,656.9	27,526.7	27,666.7	28,095.4	1.5	2.1	-2.0

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Aug-10	May-11	Jul-11	Aug-11
1. Net Foreign Assets	(575.2)	(1,532.3)	(386.7)	129.1
Monetary authorities	(58.3)	124.3	91.4	235.4
Commercial Banks	(516.8)	(1,656.6)	(478.1)	(106.2)
2. Domestic Money creation	344.3	577.8	70.2	507.0
(a) Domestic credit	(135.8)	818.1	410.6	1,005.2
Net Claims on Government	123.8	414.6	(188.9)	9.6
Monetary Authorities (net)	51.3	379.3	(117.3)	(135.5)
Commercial Banks (net)	72.5	35.3	(71.6)	145.0
Claims on non financial public enterprises	(1.8)	(1.7)	(0.8)	2.5
Claims on Private sector	(259.1)	407.1	601.6	989.4
(b) Other Domestic factor	480.1	(240.3)	(340.4)	(498.2)
3. Money Supply creation (M4)	(230.9)	(954.5)	(316.5)	636.1
Money (M1)	(140.3)	643.5	(293.1)	623.7
Quasi-money	(90.6)	(1,598.0)	(23.4)	12.4

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

End of Period	Dec-10	May-11	Jul-11	Aug-11
Reserves	30.4	0.0	86.5	0.0
Domestic currency	30.38	0.00	86.51	0.00
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	1,134.59	755.81
Claims on other finan. Inst. 2/				
Inter-bank claims	37.92	9.55	63.50	73.26
Fixed Assets	18.29	4.50	16.05	4.44
Debit Items for collection	0.00	0.00	0.00	0.00
Unclassified assets	7.66	1.106	13.050	6.966
<b>TOTAL</b>	<b>1,155.3</b>	<b>848.72</b>	<b>1,313.70</b>	<b>840.48</b>
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	1.360	1.417
Non residents banks & Financial Institutio	0.51	0.790	1.360	1.417
Non residents nonbanks				
Government Deposits				
Credit from monetary authorities				
Capital and fixed reserves	768.68	368.180	868.368	368.188
Profit and loss accounts	39.28	40.743	48.792	47.897
Reserves including Provisions	59.65	62.645	93.291	56.351
Inter-bank liabilities				
Unclassified Liabilities	287.23	376.360	301.890	366.624
<b>TOTAL</b>	<b>1342.3</b>	<b>848.72</b>	<b>1313.70</b>	<b>840.48</b>
Other items (net)	279.6	375.3	288.8	359.7
[Unclassified Liabilities [minus Unclassified Assets]				