



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: August 2012

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### Exchange Rate and International Developments

Over August signs of slowing activity continued as central bankers discussed the possibility of further action to stimulate ailing economies. The *United States* published revised GDP growth figures showing 1.7 percent annualised growth in the second quarter, up 0.2 percentage points on the previous estimate owing to slightly stronger consumer spending and greater exports. Along with weak intermediate indicators this has led the Federal Reserve to suggest additional monetary stimulus may be warranted unless an improvement in performance was seen. In *Australia* unemployment moved down by 0.1 percentage point to 5.2 percent in July, remaining relatively low by world standards. Over the month, reflecting recent better than expected economic activity, the Reserve Bank of Australia increased its growth forecasts for 2012 from 3.0 percent to 3.5 percent while also holding its monetary policy stance.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Aug-12	93.03	95.74	74.27	116.37
1 month ago	92.32	96.95	74.69	113.20
%▲	0.8	-1.2	-0.6	2.8
3 months ago	96.16	93.35	72.44	118.95
%▲	-3.3	2.6	2.5	-2.2
12 months ago	88.93	95.06	75.91	128.49
%▲	4.6	0.7	-2.2	-9.4

Note: (-) appreciation of vatu

In the *Euro area* the unemployment rate reached 11.3 percent in July with inequality growing between members (5.5 percent in Germany and 25.1 percent in Spain). Annual inflation was 2.4 percent in July, stable compared to June, while GDP fell by 0.2 percent during the second quarter of 2012 compared to flat growth in the first three months of the year underlining the mounting troubles in the region. In *New Zealand* the Reserve Bank Governor highlighted this month the growing drag on economic growth of private debt, however it is thought that activity will be propped up largely by the rebuilding activity that has begun in Canterbury. Reflecting this potential, nearly \$1 billion of residential and non-residential building consents have been granted in the first six months of 2012.

During the month the Vatu appreciated against the AUD and NZD but depreciated against the USD and the EUR.

### Real Sector Developments

Tourism arrivals in June 2012 declined over the year (responsive to a fall in cruise-ship arrivals while air arrivals continue to perform well). Air visitors grew 20 percent over the year to 9,963 visitors while cruise-ship arrivals declined 29 percent to 12,972 visitors (due to 6 P&O cruise-ship visits). As a result, the total non-resident visitor arrivals (air plus cruise) declined 14 percent over the previous year to 22,935 visitors. Air Arrivals was driven by more visitors from Australia (up by 25 percent), New Zealand (up by 45 percent), Other Pacific Countries (up by 37 percent) and Europe (up by 12 percent) over the period mainly led by considerable increases in holiday and meeting/conferences visitors, the latter reflecting the ACP-EU meeting hosted in Port Vila, which accommodated over 300 delegates. (Source: Vanuatu National Statistics Office)

According to recent data sourced from the Vanuatu Commodities Marketing Board (VCMB), total production of both copra and cocoa for the period January to July 2012 (accumulated) had declined over the year. Copra production was estimated at 20, 737 tons valued at VT957 million (despite a 12 percent decline over the year), while cocoa production was estimated at 700 tons valued at VT113 million (despite a 31 percent decline over the year). Apart from fallen international prices having some impact on production during the reviewed period, aging coconut palm trees and black-pod disease affecting productive plantations was also some contributing factors.

## Monetary Developments

During the month M2 increased by 1.0 percent and the annual M2 growth rate for the year ending July 2012 increased to 8.3 percent from a 6.5 percent recorded last month. Of the components of M2, NFA recorded a decrease of 0.8 percent in July after contracting 2.3 percent last month but remained up by 7.8 percent over the year. After flat growth over the previous month, domestic credit increased by 0.9 percent in July and was 9.7 percent up over the year.

The monthly decrease in the NFA of the banking system stemmed from decreases of 2.2 percent and 0.1 percent in commercial banks' NFA and Monetary Authorities', respectively. The decrease in commercial banks' NFA was driven by decreases in foreign liabilities of 0.7 percent and foreign assets by 1.4 percent. Over the year commercial banks' foreign assets continued to contract as has been observed since 2008. Monetary authorities saw a 0.4 percent decrease in foreign assets and a 2.0 percent decrease in foreign liabilities leading overall decrease in NFA during July, however over the year, growth in NFA of the monetary authorities has remained strong owing largely to donor inflows.

Private sector credit increased by 1.0 percent during July, bringing the year-on-year growth to 8.9 percent from 9.3 over the year to June. During the month loans to individuals and households maintained the same growth of 1.3 percent recorded the previous month. Loans to businesses increased slightly by 0.7 percent after an increase of 0.8 percent the previous month. Over the year to July 2012, loans to business and loans to individuals and households recorded increases of 11.3 percent and 7.2 percent, respectively.

Net claims on government of the banking system decreased over the month by VT52.1 million. This resulted from a decrease in government deposits with monetary authorities by VT26.3 million, outweighing increases in deposits with commercial banks which increased by VT 78.3 million. Over the past three months claims on government have fallen substantially resulting from large increases in deposits with both the RBV and commercial banks after the government made a large bond issue - purchased mostly by public corporations - in June.

## Open Market Operations

The Bank conducted Four Open Market Operations in August 2012 where it issued VT932million compared to VT941 million over the previous month. The total tender for those four issues were over-subscribed by VT1.65 billion. The over subscription reflects the high level of liquidity in the system.

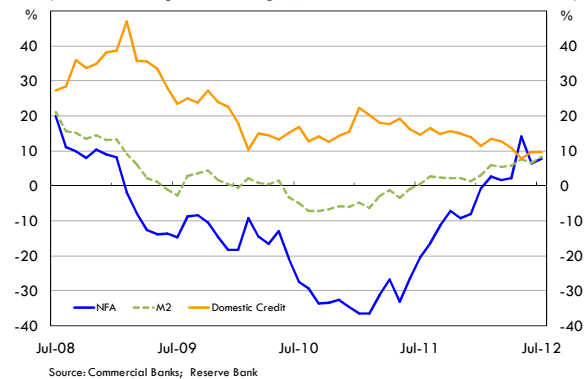
**Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)**

Term	Amount Allotted	Yield End August 2012	Yield End July 2012
7 days	245	0.40	0.40
14 days	215	0.40	0.40
28 days	185	0.45	0.45
63 days	160	0.60	0.60
91 days	136	0.90	0.90

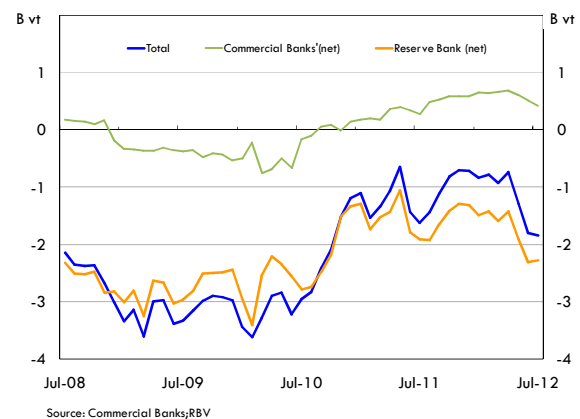
Allotments were made as follow:

- 7 days: VT186 million
- 14 days: VT186 million
- 28 days: VT186 million
- 63 days: VT185 million
- 91 days: VT189 million

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



**Chart 2: Net Claims on Government (Levels; VT billions)**



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

End of Period	Jul-11	Apr-12	May-12	Jun-12	Jul-12	%Change		
						1 Month	3 months	12months
Foreign Assets	15460.7	16595.2	16653.1	16956.2	16890.6	-0.4	1.8	9.2
Foreign Exchange 1/	14895.1	16030.3	16074.1	16388.0	16334.7	-0.3	1.9	9.7
Reserve Position with IMF	351.2	353.5	362.8	356.0	348.4	-2.2	-1.4	-0.8
SDR Holdings	214.3	211.4	216.2	212.2	207.6	-2.2	-1.8	-3.1
Claims on Government	1517.9	1518.5	1518.5	1518.5	1518.5	0.0	0.0	0.0
Advances to statutory Bodies	0.0	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	0.0
0/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	2002.0	2069.9	1936.8	1915.2	2044.3	6.7	-1.2	2.1
<b>Total Assets</b>	<b>18980.6</b>	<b>20183.6</b>	<b>20108.4</b>	<b>20389.9</b>	<b>20453.4</b>	0.3	1.3	7.8
Reserve Money	11383.4	12731.1	12266.9	12110.6	12078.8	-0.3	-5.1	6.1
Currency outside Banks 3/	4718.1	4501.5	4559.1	4669.6	4825.7	3.3	7.2	2.3
Commercial Banks Cash	1342.9	1405.2	1463.9	1428.1	1457.1	2.0	3.7	8.5
Commercial Banks Deposit with RBV	5322.4	6824.5	6243.9	6012.9	5796.0	-3.6	-15.1	8.9
Foreign Liabilities 2/	2467.4	2438.4	2501.7	2457.7	2407.8	-2.0	-1.3	-2.4
Government Deposits, of which	3422.7	2943.6	3426.4	3822.0	3795.7	-0.7	28.9	10.9
Government contribution to RTP	351.2	353.5	362.8	356.0	348.4	-2.2	-1.4	-0.8
RBV Notes	808.2	1082.1	1083.7	1084.1	1084.2	0.0	0.2	34.2
Other Liabilities	898.9	988.4	829.8	915.6	1086.8	18.7	10.0	20.9
<b>TOTAL Liabilities</b>	<b>18980.6</b>	<b>20183.6</b>	<b>20108.4</b>	<b>20389.9</b>	<b>20453.4</b>	0.3	1.3	7.8

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	Jul-11	Apr-12	May-12	Jun-12	Jul-12	%Change		
						1 Month	3 months	12 Months
Domestic currency	1342.9	1405.2	1463.9	1428.1	1457.1	2.0	3.7	8.5
Deposits with RBV	5322.4	6824.5	6243.9	6012.9	5796.0	-3.6	-15.1	8.9
RBV Notes	808.2	1082.1	1083.7	1084.1	1084.2	0.0	0.2	34.2
Foreign Assets, of which	16992.5	17059.6	16162.1	15709.2	15490.3	-1.4	-9.2	-8.8
Claims on non-residents' banks	2439.8	1983.8	2017.9	1984.4	1917.2	-3.4	-3.4	-21.4
Claims on Private sector	46242.4	49357.5	49434.9	49997.5	50490.4	1.0	2.3	9.2
Claims on Government	986.3	1085.0	1085.0	1085.0	1085.0	0.0	0.0	10.0
Other claims 1/	152.7	643.8	665.5	574.9	621.7	8.1	-3.4	307.1
Other Assets	3419.9	3005.0	2869.3	3026.3	3232.6	6.8	7.6	-5.5
<b>TOTAL ASSETS</b>	<b>75267.4</b>	<b>80462.6</b>	<b>79008.1</b>	<b>78917.9</b>	<b>79257.3</b>	0.4	-1.5	5.3
Demand Deposits, of which	16830.3	19439.8	18943.9	18389.6	18741.0	1.9	-3.6	11.4
Foreign currency	8111.7	9016.2	9137.3	9030.8	9088.4	0.6	0.8	12.0
Savings deposits, of which	5737.3	5789.8	5874.9	6265.5	6201.6	-1.0	7.1	8.1
Foreign currency	370.2	398.8	394.1	408.2	352.5	-13.6	-11.6	-4.8
Time deposits, of which	27666.7	29742.6	30074.1	29628.6	29761.9	0.4	0.1	7.6
Foreign Currency	8556.8	10008.3	10191.5	9924.1	10182.6	2.6	1.7	19.0
Foreign Liabilities, of which	10219.3	9962.4	8339.1	8736.9	8674.4	-0.7	-12.9	-15.1
Non residents Banks	1870.8	1881.7	1497.1	1606.6	1503.1	-6.4	-20.1	-19.7
Government Deposits	706.6	393.1	468.9	575.4	653.7	13.6	66.3	-7.5
Credit from RBV	0.1	0.2	0.3	0.4	0.3	-15.7	30.0	
Other Liabilities, including shareholders' funds	14107.1	15134.6	15306.9	15321.5	15224.4	-0.6	0.6	7.9
<b>TOTAL LIABILITIES</b>	<b>75267.4</b>	<b>80462.6</b>	<b>79008.1</b>	<b>78917.9</b>	<b>79257.3</b>	0.4	-1.5	5.3

1/ Includes: Claims on other Financial Institutions and Interbank Claims, Claims on Municipalities and Claims on Public Enterprises

**TABLE A3 : MONETARY SURVEY: A CONSOLIDATED STATEMENTS OF ACCOUNTS OF THE MONETARY INSTITUTIONS**

END OF PERIOD	Jul-11	Apr-12	Jun-12	Jul-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	19,766.5	21,254.0	21,470.7	21,298.8	-0.8	0.2	7.8
Monetary Authorities (Net)	12,993.3	14,156.8	14,498.5	14,482.9	-0.1	2.3	11.5
Commercial Banks (Net)	6,773.2	7,097.2	6,972.2	6,815.9	-2.2	-4.0	0.6
2. Net Domestic Assets	35,186.0	38,219.7	37,482.6	38,231.5	2.0	0.0	8.7
(a) Domestic Credit	46,004.0	50,488.6	50,007.2	50,472.4	0.9	0.0	9.7
(i) Net claims on government	(1,625.0)	(733.2)	(1,793.8)	(1,846.0)	-2.9	-151.8	-13.6
Monetary Authorities	(1,904.8)	(1,425.1)	(2,303.5)	(2,277.2)	1.1	-59.8	-19.6
Commercial Banks	279.8	691.9	509.6	431.3	-15.4	-37.7	54.2
(ii) Claims on Non financial Public enterprises (NFPE) (1)	88.6	541.2	479.7	505.3	5.3	-6.6	470.5
(iii) Claims on Private Sector (2)	47,535.1	50,651.3	51,291.3	51,784.2	1.0	2.2	8.9
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	5.3	29.3	30.1	29.0	-3.6	-1.0	444.8
(b) Other items (net)	(10,818.0)	(12,268.9)	(12,524.6)	(12,241.0)	-2.3	-0.2	13.2
3. Total Assets= Total Money Supply (M2)	<b>54,952.4</b>	<b>59,473.7</b>	<b>58,953.3</b>	<b>59,530.2</b>	1.0	0.1	8.3
(a) Money (M1)	21,548.4	23,941.3	23,059.2	23,566.7	2.2	-1.6	9.4
(i) Currency outside Banks	4,718.1	4,501.5	4,669.6	4,825.7	3.3	7.2	2.3
(ii) Demand deposits	16,830.3	19,439.8	18,389.6	18,741.0	1.9	-3.6	11.4
(b) Quasi-money	33,404.0	35,532.4	35,894.1	35,963.5	0.2	1.2	7.7
(i) Saving Deposits	5,737.3	5,789.8	6,265.5	6,201.6	-1.0	7.1	8.1
(ii) Time Deposits	27,666.7	29,742.6	29,628.6	29,761.9	0.4	0.1	7.6

1) revised on December 2011 due to misclassification

2) Include RBV staff loans excluding credit corp

3) figures highlighted need to be revised

**Commercial Banks Sectoral Distribution of Loans and Advances**

SECTOR	(Millions of Vatu)				% change		
	Jul-11	Apr-12	Jun-12	Jul-12	1 Month	3 Months	12 Months
Agriculture	669.4	692.1	707.5	756.2	6.9	9.3	13.0
Fisheries	44.0	36.3	35.4	35.2	-0.6	-3.2	-20.1
Mining & Quarrying	135.2	209.2	213.1	184.2	-13.6	-11.9	36.2
Manufacturing	1828.7	1814.3	1790.0	1645.3	-8.1	-9.3	-10.0
Distribution	3321.8	3385.1	3454.1	5061.7	46.5	49.5	52.4
Tourism	3974.8	4879.5	5139.6	3985.5	-22.5	-18.3	0.3
Entertainment & Catering	334.5	430.9	414.3	409.2	-1.2	-5.0	22.3
Transport	1557.8	1407.2	1397.0	1500.7	7.4	6.6	-3.7
Public Utilities	36.2	48.8	48.3	106.0	119.5	117.1	193.2
Construction	7076.2	7291.1	7008.6	6248.5	-10.8	-14.3	-11.7
a) Central Government	18.7	263.9	183.0	220.1	20.3	-16.6	1080.2
b) Public Corporation	18.7	236.2	158.2	195.3	23.5	-17.3	947.2
Financial Institutions	621.7	568.9	552.4	170.0	-69.2	-70.1	-72.7
Professional & Other Services	2889.9	3081.4	3110.3	6180.4	98.7	100.6	113.9
Housing & Land Purchases	14552.8	16122.1	16086.6	15777.3	-1.9	-2.1	8.4
Other Personal	8174.5	8072.1	8181.7	8056.4	-1.5	-0.2	-1.4
Miscellaneous	1214.7	1630.0	1862.5	492.9	-73.5	-69.8	-59.4
<b>TOTAL</b>	<b>46469.5</b>	<b>50168.9</b>	<b>50342.4</b>	<b>51024.9</b>	1.4	1.7	9.8
of which Vatu:	36849.3	38713.6	38696.9	38696.9	0.0	0.0	5.0

NB: Loans to Central Gvt does not include government Bonds